



COMMODORE INTERNATIONAL LIMITED
STRATEGIC PLAN

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FORWARD

During the past fiscal year, particularly after Christmas, Commodore has experienced dramatic changes in sales of home computers, its primary market. Sales have not met expectations and as a consequence, inventories, overhead and leverage significantly exceed projections.

Concurrent with this, investments in R&D (\$45 million), capital expenditures, including those for design and quality control (\$63 million), and the acquisition of Amiga (\$32 million) were needed to and to upgrade our product line with the more sophisticated computers the market place demanded and to get us into the channel of distribution that accounts for 80% of the U.S. personal computer sales. The introductions of the 128, Amiga, PC10/20, C-900 and LCD computers (although the production of the latter two are on hold) were the product of this investment program and should benefit Commodore for several years to come.

The following document is the plan of action Commodore International intends to follow over the next six months to ensure its financial survival. We will look at the present in terms of the Christmas selling season and what it does for our financial position. A long term product strategy is also included to enhance the readers' knowledge of our goals and plans for the Company in 1986 and beyond.

In addition, we will examine the fiscal fourth quarter results, the balance sheet at June 30, 1985, available credit facilities, monthly cash forecasts and a proposal to collateralize our credit facilities to ensure availability. A detailed analysis of the existing inventory is included along with the marketing plans in existing markets, vertical applications and new emerging overseas markets.

Commodore plans to institute a monthly reporting package to the banks covering the four largest geographical areas, i.e. the U.S., Germany the U.K. and Hong Kong. The format of this monthly package is enclosed. In addition, fiscal 1986 forecasts are included for the Group.

The company's cost reduction program instituted this Spring and intensified in July will substantially lower the company's break-even point so that margins will return to positive levels, not only during our peak selling season but also during the upcoming lower volume quarters in 1986 as well.

With our Banks' continued support the next four months will allow Commodore to reduce its investment in its older product line, phase in the Amiga and C-128 families, see a substantial reduction in the company's leverage, and return the company to profitable operations.

This report and the assumptions behind the forecasts, the accuracy of the balance sheet information and the execution of the plans contained herein will be reviewed and reported on by Arthur Andersen & Co.

MARKET OUTLOOK & DEMAND FORECAST FOR CIL MICROCOMPUTER PRODUCTS

After a period of unparalleled growth, the microcomputer industry is currently experiencing a slowdown, especially in the U.S., that has seen volume and earnings slide at all the major vendors. However, the market "gloom and doom" perspective of many of the articles in the daily and trade press does not accurately effect the actual nature of market conditions, or the pattern of consumer demand consistently revealed by market studies from half a dozen sources. This is particularly true with regard to the residential computer market in the U.S., still the largest single market in unit terms and the best indicator of trailing demand in the rest of the world. The analysis that follows therefore focuses primarily on the U.S. market, because of its "leading indicator" role, and because that is where the slowdown is being most acutely publicized.

IS THERE A MARKET FOR COMMODORE'S LINE OF MICROCOMPUTER PRODUCTS?

Most of the press coverage of the micro industry focuses on the sales declines of various vendors, coupled with anecdotal analyses of the presumed "computer in the closet" phenomenon. Patterns of usage, actual demand at the consumer level or the differential prospects of vendors in meeting that demand have not been deeply analysed.

INTENT TO BUY

Surveys measuring consumer "intent to buy" generally overstate actual purchase patterns by anywhere between 30% - 60%. The shorter the time period measured, the more accurate the projection. Market research shows a consistent pattern that at the present time consumer "intent to buy" within the next six months is around 10% - 13% of U.S. households not owning a computer. (See Figure 1 and 2). The CS+N data is drawn from a quarterly survey of 3,750 households; the Future Computing data is drawn from a demographically balanced mail survey (36,300 completions) conducted in the first quarter 1985.

Assuming an actual purchase rate of only a third of reported intent, for 87 million U.S. households this yields a projected 1985 sales volume of over 3 million units. Projections by the major research firms - Future Computing, InfoCorp, Dataquest and Yankee Group - are attached (Tables 1 - 4). U.S. residential shipments for 1985 by these groups range between 2.5 million - 4.6 million units valued at between \$3-4 billion (Table 2A & 3). Thus although unit shipments have declined for the second year running, analysts are projecting a rise in the overall dollar value of sales, over both 1984 and the unit peak year of 1983. (See Table 2)

Consumer demand is of course not limited to current non-owning households. Indeed intent to purchase among existing owners is frequently higher than among non-owners. According to a recent Yankee Group survey of existing owners, 13% of C-64 purchasers are "very likely" to buy another computer within the next twelve months (Table 5). About 22% of C-64 purchasers own or have owned more than one computer. Future Computing reports that the median household income of Commodore owners is \$33,000. Amongst all computer owners with household incomes above \$25,000 some 62% are "very likely" to buy another computer within the next year. There are several reasons for the continuing strong purchase intent among existing owners. According to in-depth studies of household usage patterns by Future Computing and Yankee Group these reasons are:

a positive experience of computer utility coupled with a rapidly developing desire to "do more" with their computers usually leading to purchase of another more powerful computer;

the existence of "orphan" computers (Timex, TI 99/4, VIC 20, PC-Jr) which necessitate a shift to another model or brand;

and unanticipatedly high usage by other household members leading to contention issues.

It should be stressed that the research shows that innovators and early adopters, (the existing 10%-13% of U.S. households that already have computers) have an aggressive need to remain on the leading edge of computer functionality and do not experience the need to buy another more powerful and versatile computer as a "negative", but rather as a positive opportunity.

BRAND PREFERENCES

In terms of "intent to buy" by brand, the CS+N survey in February 1985 suggested that 12% of consumers considered Commodore the most likely brand they would buy (Table 6). A third of respondents (32%) had no particular brand preference. The more thorough Future Computing mail survey showed that Commodore was the first choice of 19% of prospective buyers; with 22% undecided on brand preference (Table 7). In view of the very limited awareness by prospective consumers of either the C-128, or the Amiga in first quarter 1985, Future Computing considers it highly likely that Commodore will be able to reinforce its position amongst the existing 19% making Commodore their first choice, as well as making significant inroads into the 22% "undecided" category, and winning over consumers with other brand preferences, particularly Apple. (It is noteworthy that in the Future Computing survey, only 2% considered Atari their first choice.) The Christmas season is the strongest selling quarter for both mass merchants and computer specialty stores and the one during which "intent to buy" projections are most likely to be met. If only one third of consumers saying that they intend to purchase a computer within the next six months, actually do so and only 20% of them buy Commodore models, Commodore would sell some 600,000 units over the next six months.

MARKET TRENDS

The home is a location consisting of at least five sub markets: business from home; (office) work at home; telecommunications, education and entertainment. The most significant residential market trends of the past year, especially in the U.S., have been the shift, from low end, entertainment and computer literacy machines sold in mass merchant outlets to medium and high-end, multiple-application machines sold through computer specialty stores. There are a variety of reasons for this shift the most important being much greater consumer awareness of the potential and limitations of specific computers, and the rapid growth of the office work at home phenomenon.

According to Future Computing research, over 80% of prospective buyers plan to spend over \$500 on their initial computer purchase with over 58% planning to spend over \$1000 (Table 8). The median investment is projected at \$1,270, or \$1,570 including peripherals. This compares with 70% of purchases in second quarter 1984 who spent under \$500 for initial hardware purchases. These numbers are supported by Yankee Group surveys of existing owners planning to buy another computer (Table 9).

The C-128 and Amiga are clearly well positioned in price/performance terms for current market conditions. One advantage that the C-128 enjoys over competitive products such as the Apple IIe/IIc, is that it is an upgrade machine that is software and peripheral compatible with the 3 million C-64 installed base in the U.S. The C-128 can therefore attract both new purchasers who are price sensitive, as well as existing Commodore owners. Since consumers will not typically "upgrade" from a IIe to a IIc, Apple by comparison has to attract primarily first time buyers, or existing owners who must abandon their investment in their existing computers.

For that 20% of prospective purchasers planning to spend less than \$500 on their initial computer purchase (Table 8), the C-64 is the only viable product in the market unless the consumer is willing to buy a closeout.

The Amiga is clearly CIL's flagship product over the next 3-5 years. Because of the machine's power, unique features, and PC-DOS compatibility, it can address all the major markets:

- . small business
- . in-home
- . educational
- . vertical
- . corporate

Clearly, small business and in-home are the first markets to be addressed, followed by intensive cultivation of specific vertical markets through a three-pronged strategy of direct market development: VAR's/VAD's and, where appropriate, OEM arrangements.

For the initial penetration of targeted vertical markets (ad agencies, professional artists, animation and video special effects houses, entry-level CAD, architects and interior designers, desktop publishing, etc.) the Amiga in its current configuration, supplemented by Commodore-Amiga and third party peripherals, will be adequate. The Beta-site program that will be introduced in the fall 1985 will go a long way to making the vertical markets a strong factor in Amiga sales in early 1986.

The reestablishment of CBM's presence in the computer specialty channel is almost as important for CIL as the Amiga. This channel is projected to do over \$25 billion in micro computer sales in 1985 compared to well under \$2 billion in mass market channels. Successful reopening of the specialty channel creates extensive opportunities for Commodore in the U.S., not only with the Amiga and more powerful configurations of Amiga technology, but also possibly for the PC 10/20 product line.

DRIVING THE MARKET

Commodore has always led its chosen markets. Commodore believes that the next phase of computer market development is represented by Amiga-type capability. The next phase of the consumer market will be increasing use of telecommunications capabilities. In an attempt to drive the U.S. consumer market to its next market stage, Commodore has taken a minority position in Quantum Computer Services, a Virginia based company offering a unique, consumer oriented, information, transactional, and entertainment telecommunication service called Q-Link. CBM already has the largest market share of any U.S. modem manufacturer in U.S. households (30%) and by aggressively marketing modems and telecom services especially, Q-Link, Commodore believes it can lead the market in providing additional computer functionality that will be another major incentive for computer purchasing.

SUMMARY

U.S. market demand exists for between 3-4 million units in the home alone over the next twelve months. This includes new purchasers, and existing buyers who want more powerful, and where possible, compatible machines. Median intended investment, by new as well as existing purchasers is well over \$1000.

Commodore has high brand preference amongst consumers, which can only rise with consumer awareness of the C-128 and Amiga. Its new products are well positioned in terms of features and price for current market conditions and both the C-128 and the Amiga enjoy special competitive advantages. In the case of the C-128 these are upgrade compatibility and domination of shelf space in the mass market channel; in the case of Amiga, unique performance features and a bridge to the PC DOS world.

Projected U.S. demand for Commodore products using the above consumer survey data is given in Table 10 and 11. Projected shipments/sales of Commodore products by the major research firms are given in Table 12. The comparison of these two sources of projected sales for Commodore product in the U.S. in calendars 1985 are given in Table 13. Essentially Commodore is projected to sell 800,000 to 1 million computers in calendar 1985, as against the internal CBM forecast of 770,000 units with recorded sales of 270,000 units already achieved by June 30, 1985. According to these independent sources therefore, Commodore should have little difficulty in finding market demand to meet its calendar 1985 forecast.

Two additional indicators that unit demand should be strong through year-end 1985 are derived from the recent surge in software sales. The Software Publishers Association has just announced that results for its 140 members for the June 1985 quarter are up 35% over the same 1984 quarter, and that the strongest category was home software. InfoCorp has also announced that its survey of computer specialty channels revealed a jump in June software sales of over 60% in both dollar and unit terms, reaching the highest level since December, 1984 (See Figure 3 and 4).

Product Development

The most important strategic changes in CIL's global market position over the last year have been the elaboration of its product line and the expansion of CIL's marketing and distribution into developing markets in Eastern Europe, Latin America, Africa and the Pacific Basin. Although the current slowdown in CIL's major markets in the U.S. and Western Europe tends to disguise the importance of these changes, they have two critical longterm implications:

the ability to differentiate significantly the product mix for specific international markets and;

the ability to have a relatively orderly management of the product cycle, leveraging the different levels of international market development to phase out aging product lines.

The Amiga

The current Amiga configuration will easily meet the needs of the initial target markets. Broader and more serious penetration of these markets especially the corporate market will require that the Amiga technology be reconfigured and upgraded to meet specific market needs. It should be stressed that because of the Amiga's unique capabilities (especially the multitasking and genlock features), the Amiga in its various configurations is likely to be at the forefront of developments involving CD ROM and Laserdisk for interactive data/video applications.

Current options for repackaging Amiga technology include:

Codename Ranger - The next PC in the Amiga series is simply a reconfiguration of the Amiga for users who require more power. The base memory configuration on the machine would be 1MByte; and the machine would include a built-in 20MB hard disk and 4-8 expansion slots. Targeted system retail would be under \$3,000 and introduction could be as early as mid 1986.

Codename Zulu - A more powerful version of Ranger, probably optimized for multi-user environments, would include either a 68010 or 68020 CPU, an additional MMU chip, and upgrades to the proprietary Amiga chipsets, probably including an optional 1024 x 800 resolution monochrome mode. Multi-user DOS options include both Unix and a multi-user expansion of Amiga DOS. Pricing would be well under \$4000, with availability projected for late 1986. As with the prototype C-900 computer, the Zulu PC could easily be configured as a very powerful single user graphics workstation, as well as a 1-8 node multi-user system. Given the service and support requirements of this market, a strategic alliance or OEM agreements are probably a prerequisite for success.

Codename Aurora - This machine, targeted for 1987 introduction, is based on a proposed major revision of the Amiga chipset that is as significant an enhancement of its capabilities as the current chipset is over existing alternatives. In particular, the video manipulation/synchronization capabilities of the chipset will be enhanced, signaling the first full integration of computer and video generated imagery. This chipset will be of critical (competitive) importance to the major manufacturers like RCA, Phillips, and the Japanese companies, since it heralds the possibility of truly integrating consumer electronic devices and computers into a single home system.

Since Ranger, Zulu and Aurora will all have built-in slots, an important part of the product strategy continues to revolve around maintaining access to the PC-DOS world. For these machines, however, unlike the base Amiga, compatibility will be achieved through an Intel 80286 card, or a PC AT-on-a-board, rather than through simple software emulation. For all these products, substantial OEM possibilities exist.

PC 10/20

Although introduced as an essentially opportunistic marketing ploy, the PC 10 and 20 offer significant potential beyond the European market where they are currently doing very well. The developing nation markets are extremely price-sensitive and are standardizing on the IBM PC for governmental and corporate use. In these markets, it is CIL's distribution strengths, coupled with its pricing, which give the products their edge over competitors, and which suggest a longer product life than originally anticipated. Opportunities in the U.S. market in special situations (education, government) also offer strong potential and considerable interest has been expressed by a number of Amiga dealers in carrying, the PC 10/20. Another PC option is the prototype PC 5,a 128K, single disk version (expandable to 640K and 2nd drive) of the PC 10 which has been designed and could be introduced into the U.S. mass market channel for well under \$1000 in 1st Quarter 1986 if market conditions demand. The importance of the PC 5 is that it provides CIL another high volume alternative in the U.S. While CIL does not intend to develop an extensive IBM PC clone strategy, the company has the capability to introduce a PC AT or "PC II" Intel 80286 multi-user product within a 4-5 month timeframe if market conditions warrant it.

C-64/C-128/C-128D

For CIL's core product line, the options are fairly clear. The two most important 1986 enhancements concern building in a 300 or 1200 baud modem in the U.S. market to make the machines telecomputers; and introduction of an upgraded DOS that uses icon-based interfaces, mouse input, etc. Further price/performance improvements could be achieved by introduction of a 3.5" disk drive format for the line, although there are some issues for marketing about dealer resistance to extra hardware and software SKU. Beyond these, the broader issue of upgrading the C-64/128 user base to a more powerful machine rests on two alternatives — upgrading the chipset using Western Designs 16-bit 6502; or using a 68000-based C-64 emulation mode on the Amiga. Both these alternatives are currently under active evaluation.

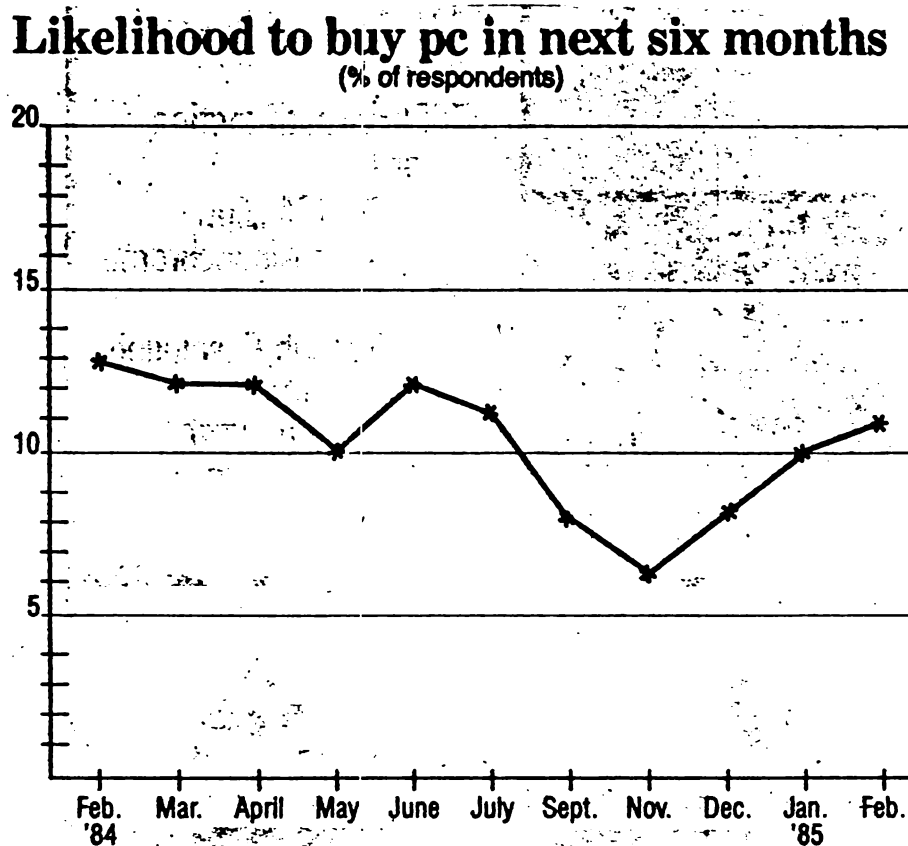
C-16 AND PLUS 4

No major product enhancements are planned for the C-16/Plus 4, although both would benefit from any work on the icon-based DOS for the C64/C128. The most important development work for these products concerns customising the units for the developing markets (e.g. a 32K or 48K version of the Plus 4; elimination of the application ROMs etc.), and for various vertical markets, especially as a low-cost communications terminal (See Inventory Status Report, TED Series, Page II-2).

TECHNOLOGY LEVERAGE

There are a number of areas where CIL has leading edge technology that could be integrated with existing products or licensed where appropriate to third parties. Examples include display, communications and video technology, especially in the LCD/flat screen, modem, video digitizer and genlock areas. Discussions are under way with a number of vendors about the possibilities of either OEM or licensing agreements for products based on these proprietary CIL technologies that would support the Commodore product line.

FIGURE 1

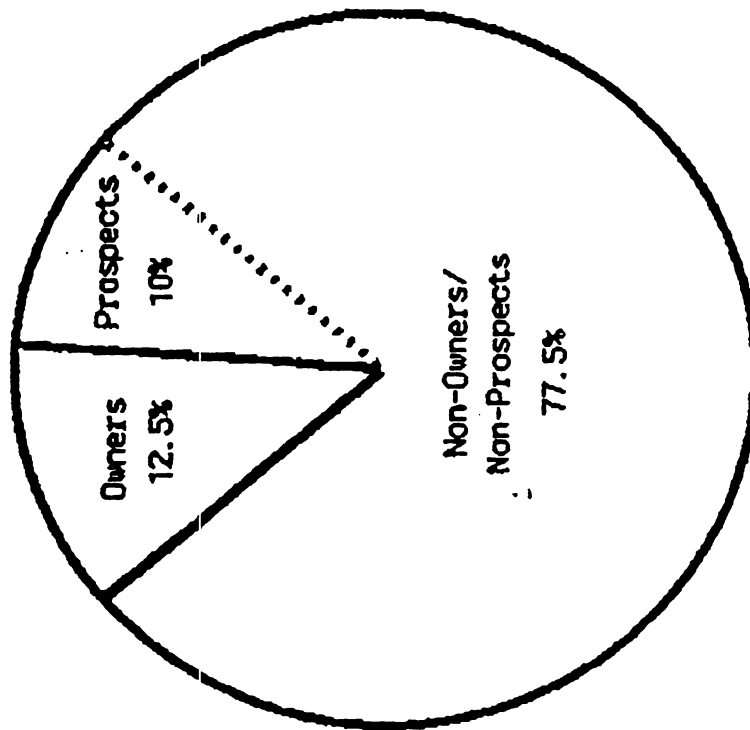


Source: C+SN/SRI consumer research

The downward trend in intention to buy hit a low point in November at 6%, followed by three consecutive months of increases, climbing to 11% by February.

Computer Ownership & Intentions in U.S. Households

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87.1 Million Households

Based on Future Computing's 1Q 1985 mail survey

NR501-196-01-02-JUN85

Analysis by Model/Price

Table 1E

ESTIMATED U.S. MARKET UNITS (LESS THAN \$1,000): ANNUAL SHIPMENTS
(Units in Thousands)

	1980	1981	1982	1983	1984	1985	CUMULTV
ATARI 400, 600XL	18.0	40.0	108.8	249.0	154.4	0.0	571.1
ATARI 800, 800XL	9.0	20.0	70.5	167.1	362.3	98.8	629.8
ATARI 1200XL			0.0	44.1	14.4	0.0	58.5
ATARI 65XE, 65XEM, 130XE					0.0	191.3	0.0
ATARI 130ST, 520ST					0.0	156.0	0.0
COLECO Adam			0.0	88.4	140.8	19.6	229.2
COMDR C16			0.0	0.0	82.5	69.3	82.5
COMDR VIC 20, Max	5.0	60.0	390.5	657.5	353.3	41.2	1466.3
COMDR C64		0.0	60.0	851.3	1249.5	428.4	2160.8
COMDR SX64				0.0	60.5	74.6	60.5
COMDR Plus/4, 264, 364				0.0	93.0	117.5	93.0
COMDR C128					0.0	596.3	0.0
FRANKLIN Ace series *					0.0	12.0	0.0
IBM PCjr *					0.0	204.0	0.0
MATTEL Aquarius I, II			0.0	32.8	5.0	0.0	37.8
TI 99/4, 99/4A	13.5	25.5	536.0	1060.2	27.5	0.0	1667.7
TIMEX TS1000/1500/2000		0.0	215.0	155.0	49.5	0.0	419.5
TRS Color Computer	20.0	58.5	112.0	120.0	318.5	354.9	629.0
TRS Micro Color Comp.			0.0	76.5	191.3	202.5	267.8
TRS Model 100 *					0.0	41.3	0.0
OTHER U.S. Mfrs/Mrktrs			0.0	5.0	6.3	2.4	11.3
U.S. MRKTR's SUBTOTAL	65.5	204.0	1492.8	3506.7	3108.6	2609.9	8384.5
ACORN Atom, Electron					0.0	0.0	0.0
ACORN BBC Model B *					0.0	2.9	0.0
CAMPUS Lynx series					0.0	0.0	0.0
DRAGON DATA Dragon 32					0.5	1.1	0.5
GEMINI MICROCOMPUTERS					0.0	0.0	0.0
GRUNDY Newbrain A, AD					0.0	0.0	0.0
ORIC PRODUCTS Oric 1					0.0	0.0	0.0
SINCLAIR ZX-series	10.5	49.4	0.0	0.0	0.0	0.0	59.9
SINCLAIR Spectrum					0.0	5.8	0.0
SINCLAIR Quantum Leap				0.0	0.6	7.8	0.6
OTHER EUROPEAN Mrktrs.					0.0	0.0	0.0
EUROPEAN SUBTOTAL	10.5	49.4	0.0	0.0	1.1	17.5	60.9
CASIO FP-200/1000/3000			0.0	0.1	0.4	0.6	0.5
FUJITSU FM-7 series					0.0	0.0	0.0
FUJITSU FM-X					0.0	0.0	0.0
HITACHI Master Basic					0.0	0.0	0.0
NEC PC-6x00, 2000's			0.0	2.1	1.2	2.6	3.3
NEC PC-8201A *					0.0	5.9	0.0
PANASONIC JR-Series					0.0	0.0	0.0
SORD M5 series					0.0	0.0	0.0
SANYO MPC, FHC series					0.0	0.0	0.0
SHARP MZ-700, 2200, X-1					0.0	0.0	0.0
TOSHIBA Pasopia IQ, Mini					0.0	0.0	0.0
OTHER C.E.M.'s MSX cpus					0.0	8.9	0.0
OTHER JAPANESE Mrktrs.					0.0	0.0	0.0
JAPANESE SUBTOTAL	0.0	0.0	0.0	2.2	1.6	18.1	3.8
SPECTRAVIDEO SV-3x8	0.0	0.0	0.0	5.0	9.0	11.3	14.0
FAR EAST & R.o.W. Mfrs	0.0	0.0	2.5	2.8	8.3	2.8	13.5
GRAND TOTAL	76.0	253.4	1495.3	3516.7	3128.5	2659.5	8476.8

Source: DATAQUEST

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PCIS Products/Markets

Analysis by Model/Price

Table 2E

ESTIMATED U.S. MARKET UNITS (\$1,000-5,000): ANNUAL SHIPMENTS
(Units in Thousands)

	1980	1981	1982	1983	1984	1985 Y-E '84	
ACTRIX			0.0	9.5	10.8	0.0	20.3
APPLE Macintosh				0.0	259.4	353.6	259.4
APPLE ///, ///+	1.0	13.3	24.3	30.6	10.4	0.0	79.6
APPLE II, II+, ///e	81.6	174.3	258.4	531.3	551.3	453.4	1649.4
APPLE ///c				0.0	280.5	448.2	280.5
APPLE II various clones		0.0	2.5	14.0	17.5	7.1	34.0
AT&T PC6300				0.0	29.0	70.9	29.0
COLUMBIA MPC, VP		0.0	1.1	20.9	41.4	16.5	63.4
COMMODORE B,BX,P series			0.0	0.0	0.0	0.0	0.0
COMMODORE PET, CBM line	22.4	26.9	28.8	7.9	1.8	1.5	124.0
COMMODORE Amiga					0.0	110.7	0.0
COMPAQ, +			0.0	53.0	105.1	118.5	158.1
COMPAQ DeskPro series				0.0	36.0	76.1	36.0
CORONA PC series			0.0	10.0	49.6	62.9	59.6
CROMEMCO C-10		0.0	2.3	10.0	10.5	10.9	22.7
DATA GENERAL One				0.0	4.0	25.2	4.0
DEC Rainbow 100, B, +		0.0	7.3	55.1	63.4	39.7	125.7
EAGLE II Series	0.0	0.8	5.3	11.4	8.1	0.0	25.6
EAGLE PC Series			0.0	9.0	24.0	26.0	33.0
FRANKLIN ACE Series *		0.0	12.0	66.9	86.7	0.0	165.5
GAVILAN SC, MobileOffice				0.0	3.8	0.9	3.8
GridCase 1, 2, 3					0.0	10.2	0.0
HP 83, 85, 86, 87, B, XM	8.6	19.8	26.4	21.2	10.7	5.0	86.6
HP 125, 120, 150, B, C			0.0	16.0	73.0	85.8	89.0
HP 110 Portable, Plus				0	22.8	30.3	22.8
IBM Personal Computer	0.0	17.5	145.1	405.0	875.7	987.7	1443.2
IBM Portable PC				0.0	65.0	40.7	65.0
IBM PCjr (4650) *				0.0	283.2	0.0	283.2
IBM PC XT *					0.0	544.5	0.0
IBM PC clones			0.0	11.9	18.2	15.4	30.1
INTERTEC Superbrain	4.0	6.0	4.4	2.8	4.5	0.0	21.7
ITT XTRA, XP				0.0	21.9	47.9	21.9
KAYPRO II, 4, 10, 12, x		0.0	12.6	77.4	78.5	59.1	168.6
KAYPRO 16 and +88s				0.0	6.7	25.0	6.7
KAYPRO 2000				0.0	0.0	27.6	0.0
LEADING EDGE PC, Model D				0.0	20.9	31.3	20.9
MORROW MD1,2,3,4 series		0.0	13.0	23.5	29.8	35.0	66.3
MORROW Pivot				0.0	4.7	17.5	4.7
NCR Dcsn Mate, PC IV, PC6				0.0	52.4	66.5	52.4
OHIOSCI C, CP, KEY series	5.9	5.0	2.9	3.7	4.8	0.0	27.2
OSBORNE 01, Exec, Vixen	0.0	7.2	91.2	26.3	3.4	4.0	128.1
OTRONA Attache, 2001		0.0	5.8	16.0	13.5	0.0	35.3
SEEUQA Chameleon, PC			0.0	12.0	20.0	32.8	32.0
SPERRY PC, Portable				0.0	52.3	63.8	52.3
STM Pied Piper, PC			0.0	7.2	16.0	20.2	23.2
TRS-80 I, III, 4, 4P	117.0	105.6	97.8	70.5	105.3	113.8	682.6
TRS-80 Model 100, 200			0.0	59.9	44.2	45.7	104.1
TANDY Model 2000			0.0	4.0	39.2	46.0	43.2
TANDY Model 1000, 1200HD				0.0	60.0	153.1	60.0
TELCON Zorba, Nomis			0.0	15.2	16.2	7.6	31.4
TELERAM T3000, 4000, 5000		0.0	5.0	8.6	11.7	9.9	25.3
TELEVIDEO TS160x series			0.0	6.7	30.4	38.6	37.1
TELEVIDEO TS80x series	0.0	4.0	14.4	24.7	13.6	4.3	56.7
TI Professional, Portble			0.0	25.7	81.9	92.4	107.6
TI ProLite				0.0	1.9	17.0	1.9

(Continued)

Analysis by Model/Price

Table 2E (Continued)

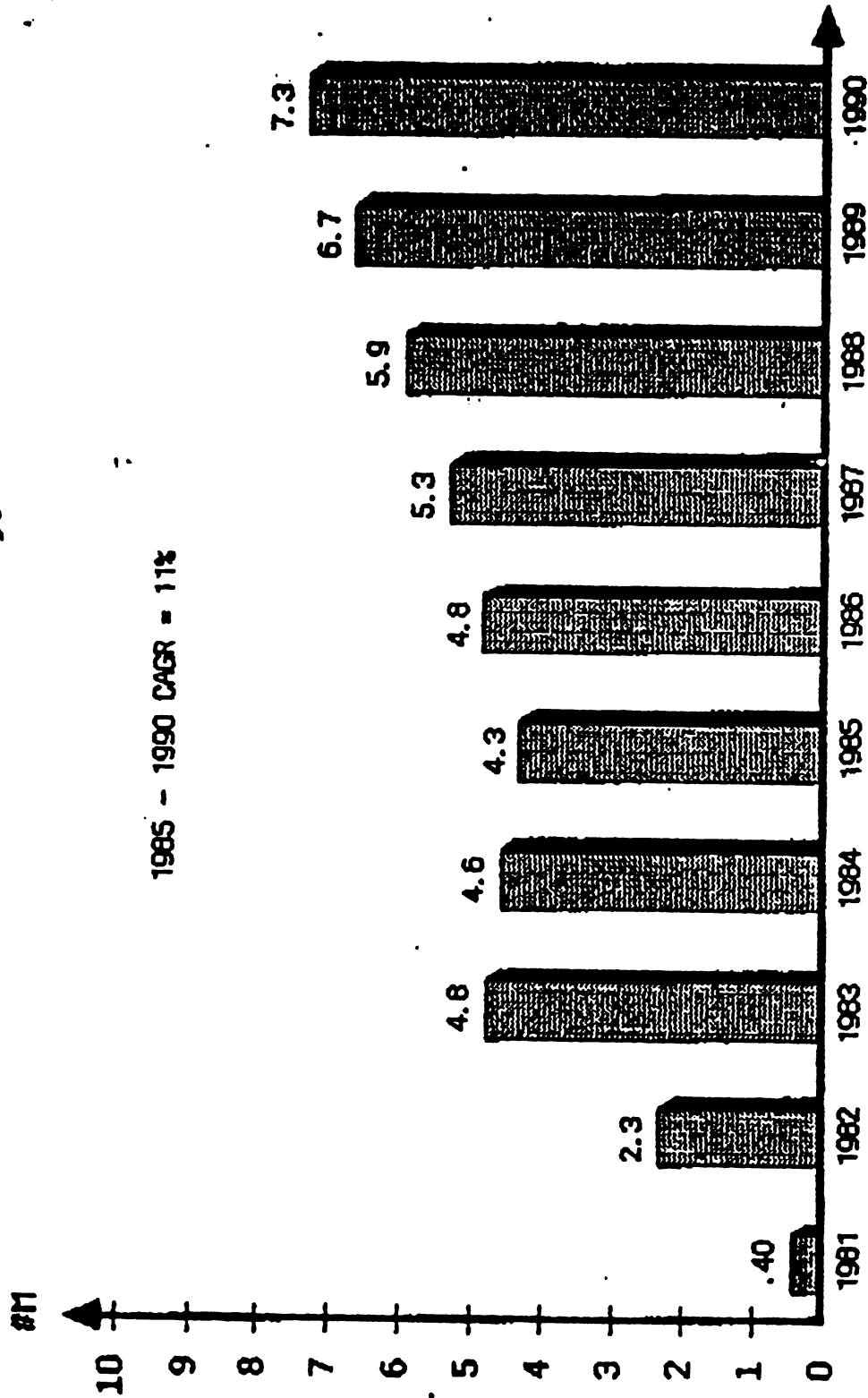
ESTIMATED U.S. MARKET UNITS (\$1,000-5,000): ANNUAL SHIPMENTS
(Units in Thousands)

	1980	1981	1982	1983	1984	1985 Y-E '84
VICTOR 9000/Sirius, Vick		0.0	17.2	33.2	3.4	5.2
WANG Professional Serie			0.0	26.6	74.7	87.8
XEROX 820, 16/8, 606x	0.0	22.3	24.7	20.3	13.0	24.5
ZENITH/HEATHKIT 8, 89, 90	10.6	15.8	19.8	15.3	0.0	0.0
ZENITH/HEATHKIT 100, 150		0.0	3.8	18.9	60.4	79.4
ZENITH/HEATHKIT 160				0.0	10.2	13.4
OTHER U.S. Mfr's.	28.4	33.9	56.3	96.2	89.7	75.8
SUBTOTAL U.S. Mfr's.	279.4	452.4	882.1	1878.0	3926.3	4787.1
ACORN, BBC Model A, B *			0.0	3.2	9.0	0.0
ACT Apricot P1, P1s, FX, X1				0.0	0.1	13.8
ACT Apricot Portable					0.0	3.0
BASIS 108, 208			0.0	5.3	0.0	0.0
BULL Questar/Micral ser es				0.0	0.0	0.0
ERICSSON PC line					0.0	9.0
OLIVETTI M-21/24				0.0	0.0	0.0
OLIVETTI M-20 Series			0.0	14.5	10.1	3.1
PHILIPS DATA P2000, etc				0.0	1.1	6.0
TRIUMPH/ADLER/ROYAL				0.0	0.5	2.1
OTHER EUROPEAN		0.0	1.2	3.3	6.4	11.1
SUBTOTAL EUROPEAN Mfr's	0.0	0.0	1.2	26.2	27.1	48.0
CANON BX, CX Series			0.0	1.0	0.0	0.0
CANON AS-100, PC			0.0	1.0	11.6	18.0
EPSON QX-10, 16			0.0	11.2	22.1	34.3
EPSON HX-20, PX-8		0.0	0.6	1.7	8.3	11.9
FUJITSU FM-8, FM-11, 9450			0.0	5.3	10.8	16.8
HITACHI (all \$1-5K's)				0.0	0.0	0.0
IBM Japan JX-1, 2, 3, 4					0.0	0.0
NEC PC-8000 Series	0.0	3.1	5.5	6.5	3.8	2.7
NEC PC-8800 series		0.0	1.8	2.5	3.8	6.1
NEC PC-9800 series			0.0	1.6	2.8	5.1
NEC PC-8200's, 8401			0.0	0.8	3.2	5.2
NEC M5200, PC100 (APC)		0.0	2.0	17.1	12.0	20.2
OKI "if-80" series		0.5	0.9	1.7	2.5	3.6
PANAFACOM (all \$1-5K's)				0.0	0.0	0.0
PANSONIC JB3000, SrPartnr		0.0	0.0	9.0	28.0	41.2
SANYO MBC-x000's		0.0	2.1	5.2	4.8	6.1
SANYO MBC-550's, 755			0.0	3.0	78.0	114.7
SONY SMC-70 series		0.0	3.6	5.0	5.3	7.5
SHARP PC-5000			0.0	2.8	14.4	18.1
SHARP MZ-80, 3200, etc.	0.0	1.1	3.2	0.0	0.0	0.0
SORD (all \$1-5K's)		0.0	2.1	2.6	3.0	4.3
TOSHIBA Pasopia 1, 5, 7, 16		0.0	1.6	1.9	2.2	3.3
OTHER JAPANESE Mfr's.			0.0	0.0	0.0	0.0
SUBTOTAL JAPANESE Mfr's	0.0	4.7	23.3	79.7	216.3	319.0
BYTEC Hyperion		0.0	0.3	1.8	3.3	1.9
OTHER R.o.W. Mfr's	0.0	0.5	2.7	17.0	58.4	86.3
GRAND TOTAL	279.4	457.6	909.6	2002.8	4231.4	5242.4

Source: DATAQUEST

Personal Computer Sales into Homes (Units — U.S. Only)

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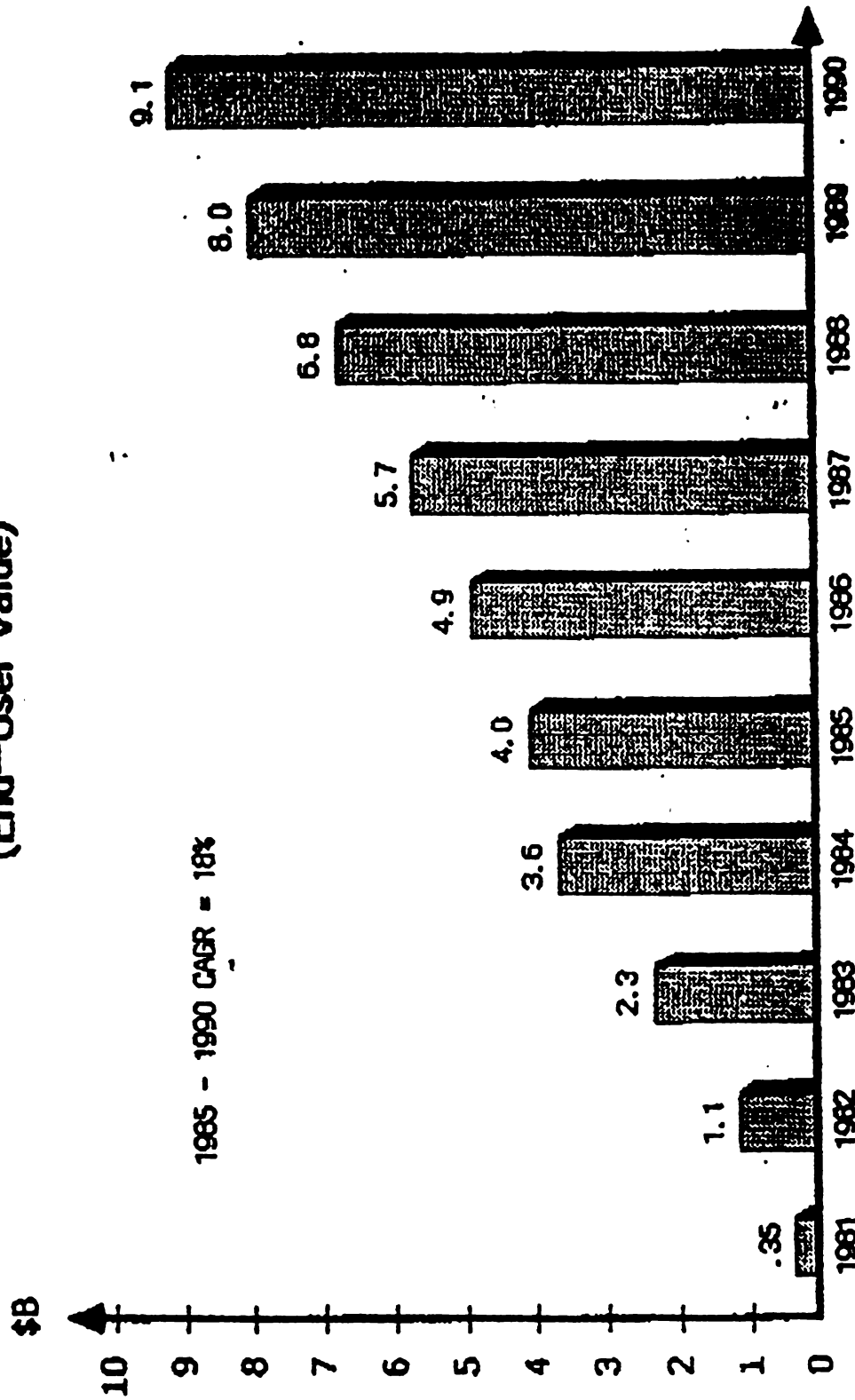


198501-196-06-01-JUN85

Based on Future Computing's 10 1985 mail survey

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COMPUTING
FOCUS**
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Personal Computers for Home Use (End-User Value)



HF5501-196-06-02-JUN85

Based on Future Computing's 1Q 1985 mail survey

TABLE 3**UNITS CONSUMED****US PRICE CLASS 01 (0-499) IN THOUSANDS**

	85	86	87	88	89	90
COMMERCIAL	120.3	103.4	133.7	180.6	239.4	351.1
HOME	1,335.4	1,358.9	1,716.1	2,058.0	2,360.1	2,771.3

US PRICE CLASS 02 (500-999)

COMMERCIAL	256.1	400.3	687.4	1,083.4	1,491.6	1,858.2
HOME	480.8	628.4	913.6	1,294.2	1,674.7	2,004.7

US PRICE CLASS 03 (1000-2999)

COMMERCIAL	1,103.8	1,222.4	1,581.2	1,979.9	2,286.9	2,581.2
HOME	625.8	744.7	1,033.0	1,291.8	1,428.9	1,551.9

US PRICE CLASS 04 (3000-6000)

COMMERCIAL	1,364.8	1,832.0	2,138.9	2,329.2	2,447.8	2,513.4
HOME	79.7	88.2	84.6	92.8	96.8	71.2

INITIAL VALUE**US PRICE CLASS 01 (0-499) IN MILLIONS**

COMMERCIAL	24.9	17.5	26.6	40.8	60.2	92.6
HOME	302.2	265.5	300.6	365.1	425.3	507.7

US PRICE CLASS 02 (500-999)

COMMERCIAL	188.4	291.6	501.1	792.2	1,094.1	1,358.0
HOME	352.7	460.7	666.3	940.0	1,211.6	1,442.0

US PRICE CLASS 03 (1000-2999)

COMMERCIAL	2,381.3	2,191.2	2,697.3	3,241.2	3,813.2	4,289.0
HOME	962.4	1,337.5	1,759.1	2,090.7	2,336.1	2,534.5

US PRICE CLASS 04 (3000-6000)

COMMERCIAL	5,888.2	7,871.6	8,981.4	9,958.1	10,539.9	10,833.8
HOME	321.7	378.0	351.6	388.2	404.4	293.2

SOURCE: INFOCORP
AUGUST 20, 1985

INFOCORP

20833 Stevens Creek Blvd. • Cupertino, CA 95014-2107 • (408) 973-1010 • Telex 383004

TABLE 3A

1985 UNITS CONSUMED

<u>Vendor</u>	<u>WW</u>	<u>US</u>
APPLE II	364,000	254,800
APPLE IIC & IIE	510,000	387,600
APPLE MAC	330,000	280,500
COMMODORE AMIGA		70,000
COMMODORE 128	460,000	345,000
COMMODORE C64	440,000	470,000
IBM PC	470,000	385,400
IBM PCJR (DISKETTE)	67,000	60,300
IBM PCJR (CASSETTE)	4,000	3,840

iINFOCORP

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TABLE 4

	Estimated 1985 Major Vendor Unit Shipments						Home Market share..
	A	B	C	D	E	F	
	Vendor	Model	HOME	BUSINESS	Model Total	Vendor Total	
1							
2							
3							
4	Apple	IIe/c	580,000	195,000	775,000		
5		Macintosh	140,000	210,000	350,000		
6		Macintosh XL		40,000	40,000		
7						1,165,000	23%
8							
9							
10	Atari	800	125,000		125,000		
11		130XE	245,000		245,000		
12		520ST	6,000		6,000		
13							
14						376,000	12%
15							
16	Commodore	C-64	630,000		630,000		
17		C-128	185,000		185,000		
18		Amiga	50,000		50,000		
19		Plus 4	35,000		35,000		
20		C-16	15,000		15,000		
21							
22						915,000	30%
23							
24	Tandy	Tandy 1000	130,000	195,000	325,000		
25		Tandy 1200	65,000	155,000	220,000		
26		Tandy 2000	3,000	35,000	38,000		
27		Model 374	74,000		74,000		
28		Color	225,000		225,000		
29		Model 6000		45,000	45,000		
30							
31						927,000	16%
32							
33	IBM	PC	325,000	625,000	950,000		
34		PC XT	50,000	200,000	250,000		
35		PC AT	32,000	368,000	400,000		
36		PC Jr	185,000	15,000	200,000		
37							
38						1,800,000	19%
39							
40	Compaq			225,000			
41	Kenpro			125,000			
42	Misc.			430,000			
43	Total:					780,000	
44							
45	Overall Total:		3,100,000	2,863,000		5,963,000	
46	rev. 7.30.85					Home:	
47						Business:	
48	SOURCE: The Yankee Group						
49	r/w/cc						

Source: Yankee Group

TABLE 5

COMPUTER OWNERS LIKELY TO BUY ANOTHER COMPUTER -
NEXT 12 MONTHS

	<u>Very Likely</u>	<u>Somewhat Likely</u>
Apple IIe/c	12%	12%
Apple Mac	10%	7%
Atari 800	12%	8%
Commodore 64	13%	10%
IBM PC	14%	9%
Tandy	10%	19%
<hr/>		
Average	14%	14%

Source: Yankee Group

TABLE 6

Home computer brand/model most likely to buy	
Brand	Percentage
Apple	57
IBM	20
Commodore	12
Radio Shack	2
Atari	2
AT&T	
Coleco	
NCR	
Sanyo	
Other	
Don't know	

Source: CIS/SPS.

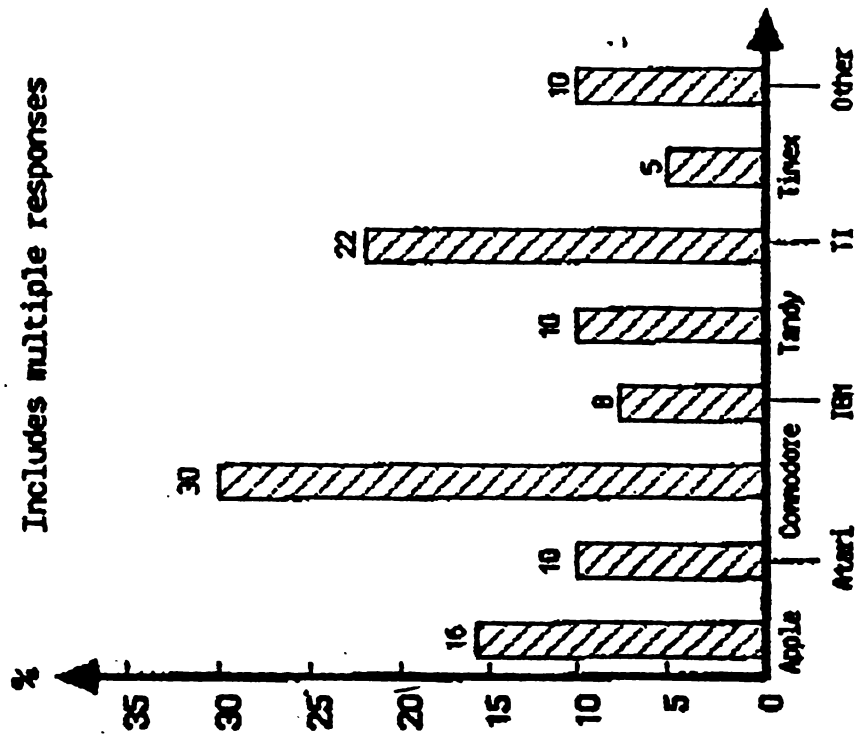
While there will be a change in buying intention among individual models for the February polling, the percentage of respondents who are not sure which brand they will buy increased significantly.

Brands of Personal Computers Owned and Planned to Buy for Home Use

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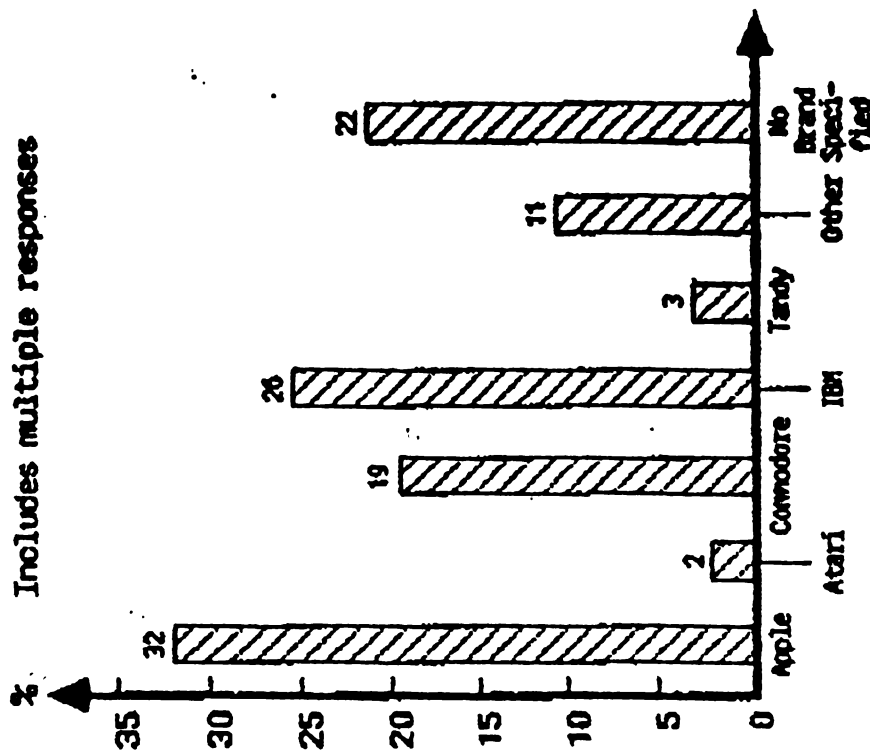
Owners

% Includes multiple responses



Prospective Buyers

% Includes multiple responses



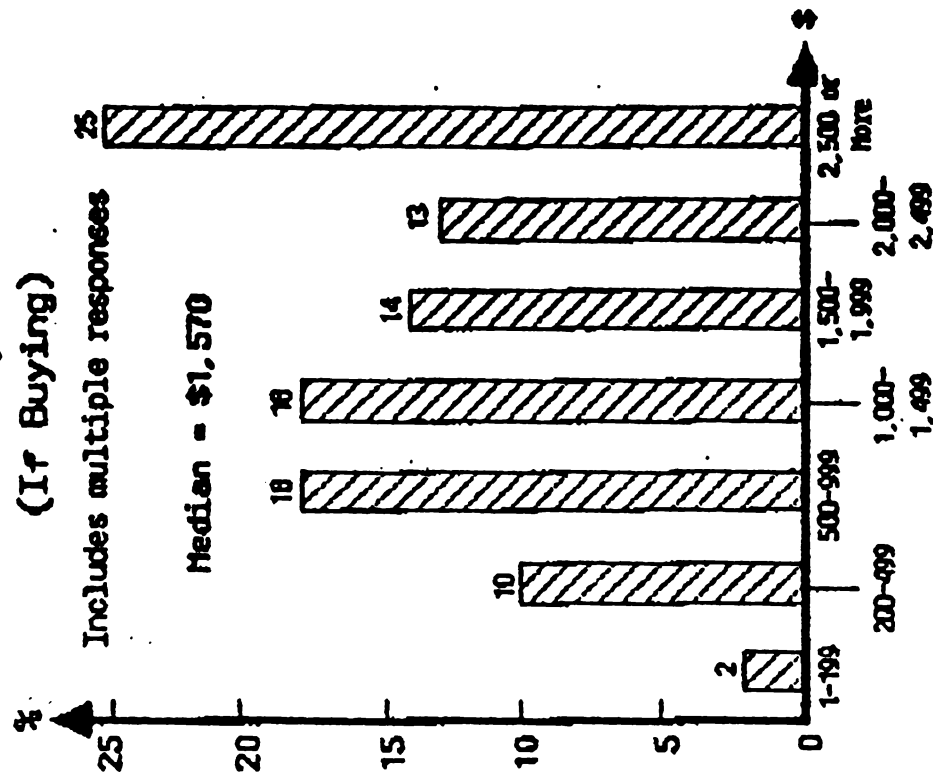
Based on Future Computing's 1Q 1985 mail survey (S028XOP)

HWPS01-198-01-05-JUN85

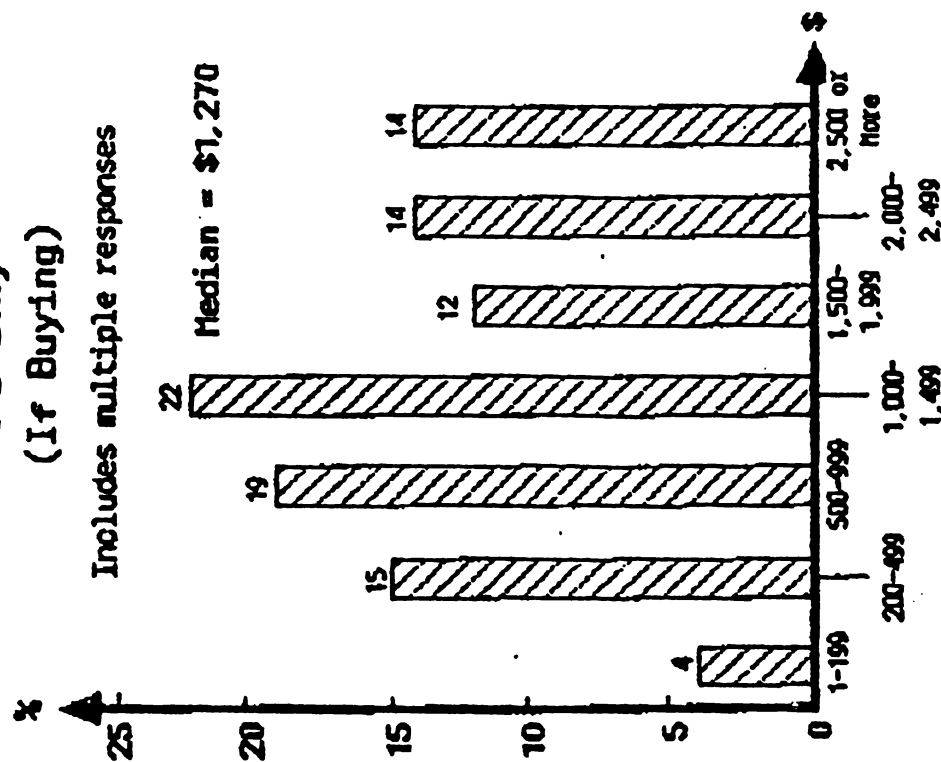
Planned Initial Personal Computer and Hardware System Investment

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COMPUTING
SYSTEMS
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PC + Peripherals (If Buying)



PC Only (If Buying)



Based on Future Computing's 1Q 1985 mail survey (SD7ABWP)

WFS01-196-01-06-JUN85

Expected Price Point for Next Computer

• \$0 - \$500	11.9%
• \$500 - \$1,000	20.4%
• \$1,000 - \$1,500	21.2%
• \$1,500 - \$6,000	32.1%
• Don't know	2.3%

TABLE 10

PROJECTED 1985 U.S. MARKET DEMAND FOR COMMODORE
PRODUCTS BASED ON PRIMARY CONSUMER DATA -
NON - OWNERS

No. of U.S. Households	87 million
No. of Households "Intend to Buy" within next 6 months	= 8.7 million
Assume only 35% of 10% actually buy, Demand	= 3,045,000 units

Brand Preference

20% say Commodore is first choice	= 600,000 units
Assume Commodore gets 30% of 22% of "undecideds" (=6%)	= 180,000 units
	<hr/>
	780,000 units

TABLE 11

PROJECTED 1985 U.S. MARKET DEMAND FOR COMMODORE
PRODUCTS BASED ON PRIMARY CONSUMER DATA -
OWNERS

All Owners, 10% - 13% of U.S. Households	=	9 million units
14% of all owners intend to buy another computer, next 12 months	=	1,260,000 units
Say 50% of 14% actually buy over next year	=	630,000 units
Say 30% buy Commodore (i.e.=to installed base share)=		189,000 units
Say 50% buy next 6 months	=	94,5000 units

TABLE 12 (SUMMARY)

PROJECTED U.S. UNIT SHIPMENTS BY COMMODEORE - 1985

Dataquest	1, 435,000
Future Computing	950,000
InfoCorp*	745,000
Yankee Group	915,000

Average = 1M units

* Excludes C-16, Plus 4, S X 64

TABLE 13

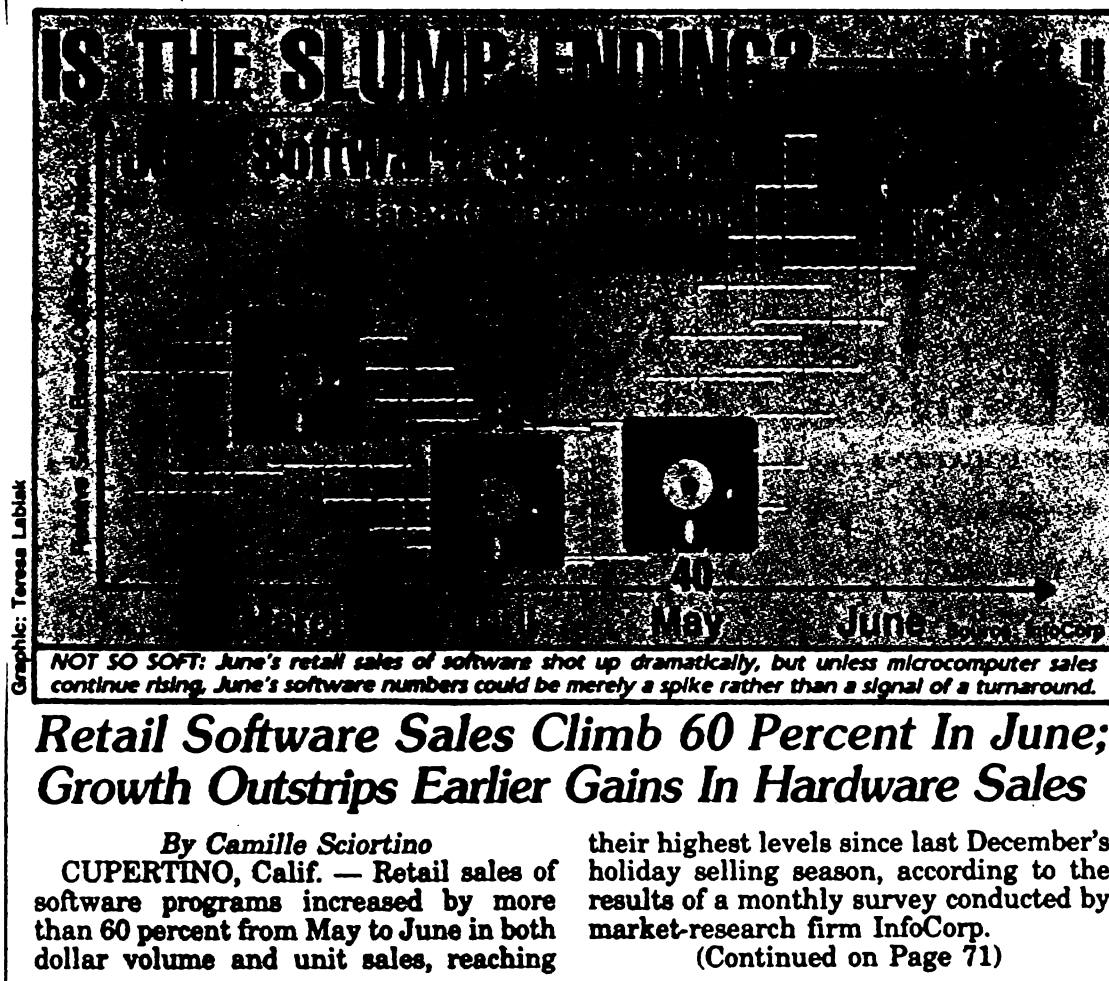
PROJECTED DEMAND AND SHIPMENTS FOR COMMODORE PRODUCT,
NEXT SIX MONTHS

Projected Demand

Amongst Non-Owners	780,000
Amongst Existing Owners	94,500
Total	874,500 units

Projected Shipments

Commodore U.S. Shipment Projections by Research Firms for 1985 (average)	= 1 million units
Actual Shipments to June '85	= 270,000 units
Projected Shipments July - December '85	= 730,000 units



SPA

Software Publishers Association

For Immediate Release
Contact: Kenneth A. Wasch
Executive Director
202-452-1600

Software Publishers Report 35% Sales Increase In Second Quarter

Washington-The Software Publishers Association reports a 35% increase in 2nd quarter software dollar sales from 1984 to 1985. The quarterly comparison, prepared by the national accounting firm of Arthur Andersen & Co., analyzed the software sales of a constant group of reporting firms. Earlier, this same group reported a dollar sales increase of 37.6% in the first quarter of 1985 over the same period in 1984.

Thirty-one firms participated in the year-to-year sales study, including such major firms in the home, education, and entertainment segments of the software industry as: Spinnaker, Broderbund, Infocom, Activision, Scarborough Systems, McGraw-Hill, Xerox, Tronix, Epyx, CBS Software, Davidson & Associates, Springboard, MECC, Sierra, Origin Systems, Hayden, and others.

The growth in software sales was experienced in virtually all software categories, with "home" software realizing the largest increase. The data indicates that despite well-publicized difficulties among personal computer manufacturers, the software market continues to grow at a very rapid rate, as the installed base of personal computers expands.

(more)

Futhermore, the trade press reports of a software sales slowdown in the second quarter are apparently wide of the mark, as the second quarter sales continue the year-to-year increase reported for the first quarter. SPA Executive Director, Kenneth A. Wasch noted that "software industry sales are no longer subject to wide month-to-month swings, but have become quite constant and much more predictable. So far, 1985 sales are very closely tracking 1984, albeit at a sales level that is 35% higher. On the basis of 1984's data, software publishers can expect rapidly rising sales beginning in September, as Christmas shipments begin."

The Software Publishers Association, the trade association of over 140 firms in the microcomputer software industry, retained Arthur Andersen & Co. in June, 1984 to begin collecting sales information from SPA members. Participation in the data program is open to all SPA members that publish microcomputer software. Individual company data is held strictly confidential by Arthur Andersen & Co, and there is no charge for participation.

FINANCIAL STRATEGY - SIX MONTHS

Given the current inventory levels and lack of earnings, Commodore is over-leveraged. During the next two quarters it is the intention of Commodore's senior management to liquidate to do whatever is necessary to liquidate the excess inventory while ratcheting down expenses to become profitable at a lower sales volume. Every avenue will be explored to liquidate this inventory during this selling season.

In North America and the U.K. the C-64 will be packaged with peripherals in bundles. Additionally, in Germany, Australia and several northern European countries where C-64 sales are still strong, the emphasis will be on moving additional units while laying the groundwork for a successful introduction of the C-128. Because of the complexity in the US of moving a significant volume of C-64 inventory, the introduction of the C-128, and the opening of new channels of distribution for the Amiga, a separate sales group has been established so that the Amiga launch will not detract from the importance of the C-64 inventory and Plus 4 reduction plan.

At June 30 there was approximately \$200 million in C-64, 1541 drives, and related printers and accessories (See Section VII). It is fully expected that these units will be substantially reduced by the end of December at or near cost.

The roughly 320,000 C-16 CPUs (value \$25 million) can be sold primarily in Latin and South America. The \$30 million invested in the Plus 4 worldwide represents a much broader problem in that our established markets to date have not been enthusiastic about the product. Although this inventory will remain on the books, third world and vertical market opportunities are beginning to materialize that provide a longer term solution.

The upcoming Christmas selling season should enable Commodore to realize at minimum \$220 million in value out of the C-64 and C-16 inventory and generate a new sales base of Amiga and C-128 sales. Given that premise, by the end of March, 1986, the current bank debt position of \$210 million will be reduced substantially through reductions in existing inventory and through new product sales.

PRIMARY FINANCIAL STRATEGY - LONG TERM

In late calendar 1984, Commodore began to restructure its capital footings with a successful European seven year bond issue. Unfortunately, the market for home computers has weakened significantly since then, and our access to that market is currently limited. Commodore is confident though, that given its ability to demonstrate to the financial community the viability of its two product introductions in North America, the new IBM compatible line in Europe and the success of its efforts to lower its breakeven point and leverage that it will in calendar 1986, have a reopened access to the capital markets for long term debt. Until that time we must continue to rely on bank debt to finance the near future.

PROJECTED CASH REQUIREMENTS AUGUST THROUGH JANUARY

Exhibit III-A is the monthly cash flow forecast for the period August through January as originally forecasted on August 1. After the new plans to conserve cash (Section III) our cash needs in September, October and November have been substantially reduced (Exhibit III-B). The following discussion is based on these needs.

In August, which is largely a vacation month in Europe, receipts are expected to total \$31 million. After local operating expenses of \$29 million, the Sales Companies have \$2 million in positive cash flow before the \$24 million required in the Far East for the producer companies. Therefore, by the end of August, bank debt rises from \$207 million to approximately \$222 million. The bulk of this borrowing is expected to be used by drawing the facilities in Europe and a decrease in the cash position by \$7 million.

September receivables increase to \$60 million as a result of C-128 shipments in August and collections in Germany, Northern Europe, UK and Italy from sales in June and July. However, September is the first month payments must be made for the initial shipments of the Amiga and C-128 components in the Far East. In the U.K., cash flow is hampered by a \$9 million payment for fiscal 1984 taxes. After \$49 million in requirements for the sales companies, \$11 million is available to fund the producers. The negative monthly cash flow of \$13 million brings our month-end debt position up to \$235 million.

October shows a continuing improvement in receivable activity as a result of Amiga and C-128 sales with collections increasing up to \$76 million. As a result, after covering all producer requirements, cash flow is positive by \$15 million.

As we look at the period of November, December and January, collections of \$102 million, \$112 million and \$95 million respectively far out-strip requirements both in the sales companies and the Far East; the result is positive cash flow of \$115 million. We anticipate receipt in the U.S. of a \$25 million tax refund by the end of December. Bank debt in the November-January period therefore, drops down from \$220 million to \$105 million. Moreover, receivables as of the end of January, according to our forecast, will total approximately \$175 million of which the majority mature in February and March.

CASH CONSERVATION PROGRAM

In July, Commodore commenced a worldwide cash conservation program with the objective of reducing expenses by \$20 million a quarter.

The program is concentrated in four areas:

1. EMPLOYEE AND RELATED EXPENSES - \$18.5 MILLION SAVINGS:

In 1985 (fiscal) employees were reduced from 6,600 to 4,400. Additional areas of costs now targeted include:

Semiconductor Operations:

Valley Forge to be converted (at no cost) to a C-Mos line for new products.

Costa Mesa to remain high volume H-Mos II and III and HC-Mos I and II.

Employees reduced from 485 to 180 saving \$6,400,000 on an annual basis. The related costs are \$1,400,000.

Engineering:

Efforts will only be directed to Amiga, major cost reductions and any modifications required for vertical market applications.

The Lap computer, the C-900 computer and the Liquid Crystal Display project are shelved. The LCD technology will be attempted to be sold. Efforts are continuing to find an OEM buyer for the C-900.

All other projects and programs are terminated.

Employees reduced from 252 to 150 saving \$7,200,000 in annual payroll.

Sales and Administration:

Headcount reductions:

United States	519 to 350 saving \$2,200,000 annually
Germany and Northern Europe	381 to 341 saving \$ 800,000 annually
United Kingdom	246 to 185 saving \$ 860,000 annually
Far East	223 to 205 saving \$ 450,000 annually

Payroll reduction to senior managers' salaries:	\$240,000
Hospitalization, Medical and Dental Plan Changes:	\$200,000
Salary Freeze-all employees-no cash savings:	
M. Smith - deferral of February 1, 1986 bonus to February 1, 1987	<u>\$300,000</u>

\$5,050,000

Total payroll reductions amount to: (on an annual basis)	<u>\$18,650,000</u>
-------------------------------------------------------------	---------------------

2. PROGRAMS AND PROJECTS - SAVINGS \$10 MILLION:

All product shows in North America have been cancelled for fiscal 1986 savings of \$1.6 million.

Reduction of R&D and Engineering projects will save \$4 million in pre-dated expenses.

Sale of the company airplane saves \$400,000 in yearly operating expenses.

Purchase orders for all equipment relating to consultants, trade conventions, conferences etc., will be reviewed by General Managers savings estimated at \$4 million.

3. ADVERTISING AND MERCHANDISING:

In all countries advertising is being restricted to print co-op and sporting events. A minimum number of TV spots will be used for the C-128 and Amiga Launch. This will save \$20 million from the previously budgeted amounts.

4. CAPITAL EXPENDITURES - SAVINGS \$32,000,000:

During the 1985 fiscal year capital outlays amounted to \$62 million.

We can operate at a worldwide maximum of \$4 million a quarter reduced in this year's requirement by \$8 million a quarter. This means only minimum maintenance and expenditures for test equipment.

Other Activities:

Sell company airplane	\$2 million
Sell non-utilized equipment	\$2-6 million
Sell the Kentron facility in Japan for approximately (Approximate book)	\$575,000

Additional areas for cuts are still being explored.

VENDOR SUPPORT

Of the \$220 million in producer purchases in the next six months, \$110 million are purchases in Japan by Commodore Japan Limited.

Commodore Japan is an approved P-Note issuer by the Ministry of Finance of the government of Japan; it is able to issue notes discountable by banks. Currently we are receiving, on average, 45 day terms from most of our Japanese vendors. In the past weeks, our Asian Manager, Robert Gleadow, and Mikio Izumi, Commodore Japan Limited's President, have met with each vendor to renegotiate terms for 120 days. To date, they have been successful on pushing out \$39 million in terms. The changes by month:

	<u>8/1/85 Forecast</u>	<u>New Payment Plans</u>
	(\$000,000's omitted)	
September	24	10
October	16	10
November	27	14
December	26	18
January	17	19
	—	—
	110	71

FORECASTS - FISCAL 1986

The (Exhibits III & IV) forecast of Commodore International Limited was compiled in July as a result of meetings senior management had with local managers in each operating subsidiary. It is accurately aligned with the current build plan in the Far East. Also attached are the product assumptions as well as average selling price assumptions.

It should be noted that average selling prices have been reduced again from previous forecasts. The emphasis in the near future remains on cash flow...not profit.

The quarters ending March and June are not now being used by management in a build plan. Decisions on any build plan for the period after January 1, 1986 will only be made in December after the results are known for the current Christmas season.

Following the CIL forecast are the reconciliations of the receivable, inventory and payable amounts.



TO: Board of Directors
FROM: John B. Kelly
DATE: August 16, 1985
SUBJ: FOURTH QUARTER RESULTS

Sales

Sales for Quarter 4 were a disappointment. The original forecast of \$200 million included \$25 million for Ted products which did not materialize. The markets in Latin and South America have taken longer to develop than originally estimated. In Quarter 4 significant price reductions were granted to generate volume. In the U.S. a bundle discount of \$5 million was given for orders taken at the CES show in Chicago in early June. Italy continued to grant price discounts which they considered as co-op advertising allowances but were really price reductions and, accordingly, should have been deducted from sales. This required a restatement of sales for previous quarters. In Quarter 4 the U.S. continued to liquidate product through COMBS - total sales value was \$5 million with no margin.

Sales of the PC 10/20 in Europe were on target - \$19.5 million. In just a short period of time, the PC became Number 1 in the German market. Sales of our flagship product, the C64, were 215,000 units in non-U.S. countries. Sales of the 1541 disk drive continue to lag significantly behind sales of the C64 outside of the U.S.

The effects of the above factors on sales and standard margin for Quarter 4 were as follows:

	<u>Sales</u>	<u>Standard Margin</u>
Original Forecast	\$200,000	\$65,000
Ted products	(25,000)	(5,000)
U.S. bundle discounts	(5,000)	(5,000)
Italy pricing allowances	(3,000)	(3,000)
Cash discounts for early payment	(2,000)	(2,000)
No margin on COMBS sales	---	(2,000)
Estimated effect of currency rates (offset by other income)		(4,000)
Other shortfalls - volume and pricing	<u>(29,400)</u>	<u>(17,500)</u>
Reported	<u>\$135,600</u>	<u>\$26,500</u>

Income

The large increase in the loss for Quarter 4 was due primarily to the margin shortfall, inventory writedowns, special year-end adjustments and loss of income tax benefits for certain of the losses.

Due to the slow sales of Ted products, management determined it was prudent to reevaluate the worldwide inventory position for these products. This review indicated that all parts below the PCB assembly level should be considered excess. This resulted in a writedown of \$15 million. Management also believed that a writedown of \$10 million was needed for finished goods and assemblies due to the large quantities of Ted products available for sale.

Additional writedowns were taken in Quarter 4 in order to facilitate future disposal of certain other products, such as PET system printers and disk drives, C64 software purchased locally and through CEL, and certain consumer printers. Excess PET production parts, primarily transferred from Santa Clara, were also written off. Total non-Ted writeoffs were \$12 million in Quarter 4. For the fiscal year 1985 total non-Ted inventory writeoffs were \$36 million.

Operating expenses of \$61 million were higher than forecast primarily due to a \$5 million bad debt provision in Italy. During fiscal 1985 five people from senior management visited Italy at different times to review the receivable situation. At the last review it was determined that with deteriorating market conditions and high levels of receivables, the extending of due dates created a high risk of collectibility. As of June 30, 1985 \$5 million of receivables were more than one year old and Arthur Andersen concurred that a reserve be established for this amount.

Advertising expenses in Quarter 4 were lower than forecast due to the reclassification of Italy's co-op allowances and the U.S. CES bundle discounts. Research and development costs for Quarter 4 were higher than previous quarters due to the heavy development costs for the Amiga and approximately \$1.3 million of prototype materials for the C900 series.

Certain other non-recurring adjustments in Quarter 4 included \$3.5 million in other cost of sales for customs problems in the U.S., U.K. and Germany. The steel division in Canada was sold in June 1985. The net loss of U.S. \$1.2 million (Can.\$1.6 million) was included in other income. Other income also included a writedown of \$2.5 million for idle semiconductor equipment, primarily the 4" wafer fabrication line in Costa Mesa and excess testing equipment in Hong Kong.

Arthur Andersen required Germany to discount the Deerfield receivables by \$1.6 million because the credits will be used by Commodore over a period of 2-3 years. At the present time the discount is reflected in other cost of sales. However, Arthur Andersen is still reviewing the entire Deerfield situation. They believe that for U.S. reporting purposes the discount should be shown as a reduction of sales. They have also gone so far as to say that no profit should have been recorded on the sale because the value of the credits received in exchange was not determinable. This would mean a reduction of Quarter 1 sales and pre-tax income of \$4.3 million. This issue is still unresolved.

The effect on pre-tax income of the above non-recurring items is summarized as follows:

Original forecast (excluding inventory writedowns)	\$(19,000)
Margin shortfall	(38,500)
Italy bad debts	(5,000)
Customs problems	(3,500)
Idle semiconductor equipment	(2,500)
Loss on sale of steel division	(1,200)
Deerfield discount - Germany	(1,600)
R & D - C900 prototype materials	(1,300)
Currency translation gain (included in other income)	3,000
Expenses lower than forecast	<u>2,000</u>
Pre-tax loss before inventory writedowns	(67,600)
Inventory writedowns - Ted products	(25,000)
Other	<u>(12,000)</u>
Reported pre-tax loss	<u><u>\$(104,600)</u></u>

Both Canada and Italy are in net loss carryforward positions with no possibility of carrying the 1985 losses back to prior years. In addition, the inventory writedowns were recorded by CEL, which pays minimal income taxes. In Quarter 4, \$2.0 million was provided for the estimated cost of the resolution of the Japanese tax audit of 1983/84. Therefore, the effective tax benefit in Quarter 4 was only 23% compared with 30% in prior quarters.

The preliminary after-tax loss for Quarter 4 is \$80.3 million. For the first nine months net income was \$10.1 million, so the preliminary net loss for the fiscal year is \$70.2 million.

/lh

John B. Kelly

PROPOSED NEW DEBT STRUCTURE

The current credit agreements in the U.S., U.K., and Germany are totally out of line with the current business conditions. The covenants bear no relationship to the ongoing business environment and the uncertainty of the market makes the prospects of new credit facilities on the same terms remote.

I propose that we replace the covenants by providing security to the banking group. Exhibit VIB shows our proposed facilities and available asset coverage.

The new borrowings under existing facilities are vital to meet our commitments this Fall and will be the first cancelled later in the year as the cash flow from operations allow the business to contract. This LIFO arrangement is expected to be used in subsequent years to finance our seasonal peaks.

COMMODORE INTERNATIONAL LIMITED
BANK CREDIT FACILITIES
JULY 28, 1985
BY COUNTRY U.S. \$(000)

LINE OF CREDIT	TOTAL	USED	UNUSED
U.S. *	22,500	0	22,500
CANADA	11,852	2,963	8,889
JAPAN	7,134	0	7,134
HONG KONG	19,169 *	12,339	6,830
TAIWAN	3,000	0	3,000
AUSTRALIA	1,773	1,548	225
GERMANY	13,380	8,941	4,439
AUSTRIA	3,383	3,418	-35
ITALY	18,577	13,501	5,076
SWITZERLAND	1,905	1,627	278
DENMARK	2,427	288	2,139
NORWAY	599	231	368
NETHERLANDS	3,106	1,766	1,340
BELGIUM	4,310	3,190	1,120
SWEDEN	1,192	355	837
TOTAL LINES	114,307	50,167	64,140

TERM BANK CREDIT FACILITIES

U.S.	100,000	100,000	0
AUSTRALIA	6,028	4,610	1,418
U.K.	35,500	24,996	10,504
GERMANY	20,070	20,070	0

TOTAL TERM	161,598	149,676	11,922
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TOTAL WORLDWIDE FACILITIES	275,905	199,843	76,062
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* NET OF LETTER OF CREDIT FACILITIES OF U.S. \$18,000,000
AVAILABLE LETTER OF CREDIT FACILITIES OF \$10,737,000

08/09/85

Does not include Commodore Credit

COMODORE INTERNATIONAL LIMITED

TREASURY PRELIMINARY 08/09/85

BANK CREDIT FACILITIES — WORKING CAPITAL ONLY

IN THOUSANDS OF DOLLARS

JULY 28, 1985

LINES OF CREDIT

NORTH AMERICA

COMODORE BUSINESS MACHINES, INC.

		TOTAL			JULY 28, 1985 OUTSTANDING		AVAILABLE	
		EX RATE	CURRENCY	\$ U.S.	CURRENCY	\$ U.S.	CURRENCY	\$ U.S.
MANUFACTURERS HANOVER	US\$	1.00	5625	5625	0	0	5625	5625
CONTINENTAL ILLINOIS		1.00	5625	5625	0	0	5625	5625
BANK OF AMERICA		1.00	3125	3125	0	0	3125	3125
PHILADELPHIA NATIONAL BANK		1.00	3125	3125	0	0	3125	3125
AMERICAN BANK		1.00	0	0 1)	0	0	0	0
BARCLAYS		1.00	2500	2500	0	0	2500	2500
MARINE MIDLAND		1.00	2500	2500	0	0	2500	2500
TOTAL U.S.			22500	22500	0	0	22500	22500

1) \$2500 TO CBM OR \$5000 TO COMODORE CREDIT

COMODORE BUSINESS MACHINES LTD.

CANADIAN IMPERIAL BANK	CD\$	1.35	1000	741	0	0	1000	741
CONTINENTAL ILLINOIS		1.35	15000	11111	4000	2963	11000	8148
TOTAL CANADA			16000	11852	4000	2963	12000	8889

SUBTOTAL NORTH AMERICA			34352		2963		31389
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ASIA

COMODORE JAPAN LTD.

FUJI BANK	JY	238.30	1200000	5036	0	0	1200000	5036
HONG KONG SHANGHAI		238.30	500000	2098	0	0	500000	2098
TOTAL JAPAN			1700000	7134	0	0	1700000	7134

COMMODE ELECTRONICS LIMITED -
HONG KONG BRANCH

MANUFACTURERS HANOVER	US\$	1.00	8400	8400	2485	2485	5915	5915
STANDARD CHARTERED	HK\$	7.80	32000	4103	32106	4116	-106	-14
HONG KONG SHANGHAI	US\$	1.00	5000	5000	5000	5000	0	0
HONG KONG SHANGHAI	HK\$	7.80	13000	1667	5753	738	7247	929
TOTAL HK				19169		12339		6831

COMMODE ELECTRONICS LIMITED -
HONG KONG BRANCH LETTER OF CREDIT FACILITIES

MANUFACTURERS HANOVER	US\$	1.00	3000	3000	2403	2403	597	597
STANDARD CHARTERED	US\$	1.00	10000	10000	3900	3900	6100	6100
HONG KONG SHANGHAI	US\$	1.00	5000	5000	960	960	4040	4040
			18000	18000	7263	7263	10737	10737

COMMODE ELECTRONICS TAIWAN LTD.

MANUFACTURERS HANOVER	US\$	1.00	3000	3000	0	0	3000	3000
TOTAL TAIWAN			3000	3000	0	0	3000	3000
SUBTOTAL ASIA				29903		12339		16964

AUSTRALIA

COMMODE BUSINESS MACHINES PTY., LTD.

WESTPAC	A\$	1.41	2500	1773	2182	1548	318	226
TOTAL AUSTRALIA			2500	1773	2182	1548	318	226

EUROPE

COMMODE EUROMASCHINEN GMBH

BERLINER BANK	DM	2.84	6000	2113	3585	1262	2415	850
BETHMANN BANK		2.84	10000	3521	8023	2825	1977	696
NORDEUTISCHE LANDESBANK		2.84	10000	3521	1845	650	8155	2871
BANK OF AMERICA		2.84	6000	2113	6000	2113	0	0
MANUFACTURERS HANOVER		2.84	6000	2113	5940	2092	60	21
TOTAL GERMANY			38000	13380	25393	8941	12607	4439

COMMODE EUROMASCHINEN GES.MBH

		OS						
OSTERREICHISCHES CREDIT-INSTITUT		20.10	18000	896	18709	931	-709	-35
ZENTRALSPARKASSED.GEMEINDE		20.10	50000	2488	50000	2488	0	0
TOTAL AUSTRIA			68000	3383	68709	3418	-709	-35

COMMOORE ITALIANA S.P.A.

BANCA AGRICOLTURA	LIRA	1.911	10000	5233	59051	30901	-49051	-25668
BANCA COMMERCIALE ITALIANA		1.911	4000	2093	0	0	4000	2093
BANCA LARIANO		1.911	5000	2616	0	0	5000	2616
BANCA DEL LAVORO		1.911	3000	1570	0	0	3000	1570
BANCA MONTE DEI PASCHI DI SIENA		1.911	5000	2616	0	0	5000	2616
BANCA POPOLARE DE MILANO		1.911	5000	2616	0	0	5000	2616
BANCA DI ROMA		1.911	9000	4710	0	0	9000	4710
CARIFLO		1.911	5000	2616	0	0	5000	2616
CREDITO COMMERCIALE		1.911	6000	3140	0	0	6000	3140
CREDITO ROMAGNOLO		1.911	7500	3925	0	0	7500	3925
ISTITUTO SAN PAOLO DI TORINO		1.911	6000	3140	0	0	6000	3140
MANUFACTURERS HANOVER		1.911	8000	4186	0	0	8000	4186
BARCLAYS		1.911	5000	2616	0	0	5000	2616
SUBTOTAL ITALY			78500	41078	59051	30901	19449	10177
LESS DISCOUNT FACILITIES			43000	22501	33251	17400	9749	5102
TOTAL ITALY			35500	18577	25800	13501	9700	5076

COMMOORE A.G.

SWISS BANK CORPORATION	SFR	2.3F	4400	1905	3758	1627	642	278
			<hr/>		<hr/>		<hr/>	
TOTAL SWITZERLAND			4400	1905	3758	1627	642	278

COMMOORE DATA A/S

DEN DANSKE BANK	DKR	10.30	25000	2427	2969	288	22031	2139
TOTAL DENMARK			25000	2427	2969	288	22031	2139

COMMOORE COMPUTERS, NORGE A/S

SPAREBANKEN	NKR	8.35	5000	599	1932	231	3068	367
			<hr/>		<hr/>		<hr/>	
TOTAL NORWAY			5000	599	1932	231	3068	367

COMMOORE B.V.

AEN	DEL	3.22	10000	3106	5687	1766	4313	1339
			<u>10000</u>	<u>3106</u>	<u>5687</u>	<u>1766</u>	<u>4313</u>	<u>1339</u>
TOTAL NETHERLANDS			10000	3106	5687	1766	4313	1339

COMMOORE COMPUTER N.V./S.A.

KREDIEBANK	BFL	58.00	100000	1724	100000	1724	0	0
BANK BRUSSEL LAMBERT	BFL	58.00	100000	1724	35000	603	65000	1121
GENERAL BANKMAATSCHAPPIJ	BEL	58.00	50000	862	50000	862	0	0
TOTAL BELGIUM			250000	4310	185000	3190	65000	1121

COE COMPUTER PRODUCTS AB

SKANDINAVISKA ENSKILDA BK SKR	SEK	8.39	10000	1192	2982	355	7018	836
TOTAL SWEDEN			10000	1192	2982	355	7018	836
SUBTOTAL EUROPE				48879		33318	123670	15561

TOTAL SHORT TERM LINES

114307*

50167

64139

TERM BANK CREDIT
REVOLVERS/ TERM LOANS

*EXCLUDES LETTER OF CREDIT FACILITIES

NORTH AMERICA

COMMODORE BUSINESS MACHINES, INC.

AGREEMENT DATED JUNE 27, 1984

TWO YEAR EVERGREEN REVOLVER CONVERTIBLE JUNE 30, 1986 INTO A
THREE YEAR TERM LOAN AMORTIZING QUARTERLY.

MANUFACTURERS HANOVER	US\$	1.00	22500	22500	22500	22500	0	0
CONTINENTAL ILLINOIS		1.00	22500	22500	22500	22500	0	0
BANK OF AMERICA		1.00	12500	12500	12500	12500	0	0
PHILADELPHIA NATIONAL BANK		1.00	12500	12500	12500	12500	0	0
AMERICAN BANK		1.00	10000	10000	10000	10000	0	0
BARCLAYS		1.00	10000	10000	10000	10000	0	0
MARINE MIDLAND		1.00	10000	10000	10000	10000	0	0
TOTAL US			100000	100000	100000	100000	0	0
SUBTOTAL NORTH AMERICA			100000		100000		0	0

AUSTRALIA

COMMODORE BUSINESS MACHINES PTY LTD

AGREEMENT DATED MARCH 14, 1985

TWO YEAR EVERGREEN BILL ACCEPTANCE/TERM LOAN DUE
MARCH 14, 1985.

WESTPAC	A\$	1.41	8500	6028	6500	4610	2000	1418
SUBTOTAL AUSTRALIA			8500	6028	6500	4610	2000	1418

FOPE

MOORE BUSINESS MACHINES (UK) LTD

AGREEMENT DATED AUGUST 10, 1984

TWO YEAR EVERGREEN REVOLVER CONVERTIBLE AUGUST 10, 1986 INTO A
THREE YEAR TERM LOAN AMORTIZING QUARTERLY.

BARCLAYS BANK	ST	1.42	7000	9940	4729	6715	2271	3225
NATIONAL WESTMINSTER		1.42	5000	7100	3774	5359	1226	1741
STANDARD CHARTERED		1.42	5000	7100	3500	4970	1500	2130
MANUFACTURERS HANOVER		1.42	4000	5680	2800	3976	1200	1704
CONTINENTAL ILLINOIS		1.42	4000	5680	2800	3976	1200	1704
TOTAL UK			25000	35500	17603	24996	7397	10504

MOORE EUROMASCHINEN GMBH

INDIVIDUAL COMMITMENTS; VARIOUS DATES.

TWO YEAR EVERGREEN REVOLVER CONVERTIBLE JUNE 30, 1986 INTO A
ONE YEAR TERM LOAN AMORTIZING QUARTERLY.

BERLINER BANK	DM	2.84	9000	3169	9000	3169	0	0
BEHMAN BANK		2.84	15000	5282	15000	5282	0	0
NORDEUTSCHE LANDESBANK		2.84	15000	5282	15000	5282	0	0
BANK OF AMERICA		2.84	9000	3169	9000	3169	0	0
MANUFACTURERS HANOVER		2.84	9000	3169	9000	3169	0	0
TOTAL GERMANY			57000	20070	57000	20070	0	0

SUBTOTAL EUROPE		55570		45067		10504
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TOTAL REVOLVERS/TERM LOANS		161599		149677		11922
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WORLDWIDE BANK FACILITIES		275905		199844		76062
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PLUS DM OFFERING	2.84	100000	35211	100000	35211	0
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TOTAL WORLDWIDE FACILITIES		311117		235055		76062
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INVENTORY STATUS REPORT

Exhibit VII-A is the current inventory breakdown by units and country. Following is the plan we intend to follow to allow us to convert a sizable portion of this inventory to cash in the next six months.

COMMODORE 64 AND PERIPHERALS

The upcoming Christmas selling season gives us every reason to believe that this inventory can be substantially liquidated in the current selling season. To do so, we will price the product in bundles in an effort to move out the peripherals along with the CPU's.

In the past few weeks our mass dealers have noticed that C-64 sales have picked up as a result of the increased traffic the C-128 ads have generated. This will further aid our efforts in C-64 reduction plans.

TED SERIES PRODUCTS

In 1984, Commodore introduced two products which are known as the Ted Series, the C-16 and Plus 4. While the C16 was a successful product for us with over 400,000 units sold to date, it did not prove to have any lasting success after Christmas in our established marketing countries. The PLUS 4 was too expensive in the countries where the C-16 was successful and its incompatibility with the C-64 seemed to be a major stumbling block in countries where the C-64 had a firm control of the market. Sales were just over 130,000 while the inventory build plan was originally set at 600,000.

The C-16 is selling well in South America, India and Eastern block countries, where a beginner machine (a'la the VIC 20 in the U.S. and Europe) at an inexpensive price point meets local demand. Sales forecasts in these countries will move the C-16 inventory without further pricing/marketing action.

The PLUS 4 represents a much larger problem. While technologically superior to the C-64, the C-64 was too established in its software base to allow a second line in its price class. Moreover, demand in new markets is insufficient to move a significant number of units in the near future.

In the United States, special marketing plans are now being offered to our dealers to sell "word processors" this Christmas, consisting of a Commodore 64, printer, drive and possibly Easy Script package. Initial reaction to the concept from our dealer base has been favorable. Additional marketing promotion activities will continue through the selling season.

Another solution exists in the U.S. through the concept of vertical marketing. Attached is the U.S. vertical marketing program as it relates to the Plus 4 as well as other products.

1541 DRIVE

Our engineering staff has designed a new drive around the old 1541 model. A significant inventory item in the Far East is 1541 drive heads which total approximately 220,000 units. At a cost of \$35 each, this represents an opportunity not only to recoup a \$8 million investment in slow moving parts, but also a marketing opportunity to sell a new product with margin. We therefore plan to introduce in October a drive for the C-128 family, the 1570, that is as fast as a 1571 but only containing 170K instead of the 500K in available storage capacity. Since the 1571 is expected to be in short supply relative to demand we will ship the 1570 to Europe where its lower cost vis a vis the 1571 makes it more suitable to the European income levels. In addition, this allows us to allocate all of the current planned 1571 production (100,000 units in the September quarter and 150,000 units in the December quarter), to the U.S., alleviating a possible shortage of drives for the 128 family worldwide.

The possibilities also exist then to rework any and all existing 1541's that may remain unsold after Christmas.

SALES TO THIRD WORLD COUNTRIES

Since January of 1985, Commodore has established a worldwide marketing group located in the U.K. under John Baxter and in Nassau, Bahamas, headed by Jim Dionne.

The U.K. marketing effort focuses on Eastern Block countries, India, and Africa while Jim Dionne focuses on Central and South America. CEL sales from the U.K. in the upcoming fiscal year are expected to exceed \$42 million, of which \$23 million is centered in C-64 family products.

Sales to Central and South America from Jim Dionne's group, are forecasted in the next fiscal year to total \$70 million. The mix to Central and South America is more weighted to the Plus 4 family.

Throughout the third world interest is high in the C-128 and PC 10/20 as low cost business computers. Shipments to those areas of the world begin in the Christmas quarter on a limited basis and expand through the year. The primary reason for the market push into new countries is to continue to move C-64 family and Ted family product. It appears, however, that these markets will have the capacity to accept our higher range computers as marketing channels are being established in both business and mass channels and the acceptance of IBM PC DOS as a government and education standard.

PROGRAM: Xpress Videotext Terminal**Overview:**

Xpress, a joint venture company, combining the resources of McGraw Hill, Telecrafters and Telecommunications, Inc. with CBM as a primary vendor will be engaged in selling timely financial and news information into the home and business markets utilizing a Plus/4 computer.

The system uses conventional cable networks as a medium for transmitting raw financial and news data to the home and business environments. The use of special software allows the user to manipulate this data within a set of parameters suited specifically for his particular needs.

This package will be marketed under the brand name of Standard and Poors adding legitimacy and value to the product.

Markets: Financial community in the home and business markets.

Market

Potential: Total market potential is estimated at 50 million users. We predict Xpress' market share to exceed 500,000 units with initial sales potential of 50,000 plus units by year end.

Equipment: Basic System Package

- o Plus/4 Computer System
- o Custom Interface
- o Custom Software

Aftermarket Sales Potential

- o Color Video Monitor
- o Single Disk Drive
- o Dot Matrix Printer

Purchase

Price: Standard system package is \$110.00 cash.
\$120.00 + 10% over 2 years
Initial commitment is for 25,000 Systems

PROGRAM: Mobile Database Information Management

Overview:

This is a relatively inexpensive, yet effective information retrieval system designed specifically for use by police departments. The system features a Plus/4, Monochrome Monitor, Disk Drive and special interfacing equipment installed in board a standard police patrol car. Through the use of special software, basic information stored on the disk drive can be instantaneously retrieved and displayed on the video monitor including phone numbers, wanted criminals, special police code numbers, maps, location of fire hydrants etc.

Moreover, the system may be tied into a central data base by linking the system through a conventional police radio with the use of a modified Commodore Modem. This permits the police officer to access large amounts of information, or information that tends to be constantly updated within the confines of his patrol car. One of the primary applications will be a series of high resolution, digitized set of road maps that can be displayed on the screen by keying in simple coordinates. The zoom feature allows the police officer to identify his specific destination.

The system will be completed and installed at the Lakeland Police Department by October 1, 1985, followed by the systems official launch at the International Association of the Chiefs' of Police on October 12th through the 17th. Attending this meeting will be approximately twelve to fifteen thousand potential buyers.

Motorola is currently marketing a similiar device that is severely limited in application and costing thousands of dollars more.

Markets: Police Departments, Public Safety Departments

Market

Potential: There are a total of 40,000 police departments within the continental United States. Each department averages approximately 10 to 15 patrolmen, creating a total market potential of 120,000 systems.

Equipment: Basic System Package

- o Single Disk Drive
- o Custom Interface
- o Custom and Canned Software

Purchase

Price: Basic system package will be kept under \$500.00

PROGRAM: Community Information Management System

Overview:

This system is designed to provide a dedicated source of community information using a typical bulletin board concept. Conventional display monitors are located in specific strategic areas which combine high resolution graphics and text to display a variety of information, news or events.

Due to the large storage requirements, each system will feature the SFD1001 one megabyte disk drive tied into either a C64 or Plus/4 Computer and 1702 or 1802 color monitor. As storage requirements increase, additional disk drives may be added when needed.

This application is rather simple to configure and extremely flexible in nature.

Markets: Hotels and Motels, Community Centers

Market

Potential: Motels and Hotels. Initial customers include Sheraton and Hilton Hotels, with a volume of 5,000 units plus.

Equipment: Basic System Package

- o C64 or Plus/4
- o 1802 Monitors
- o SFD 1001 Disk Drive
- Custom Interface

Aftermarket Sales Potential

- o CD ROM (Mass Storage)
- o Complete Amiga Systems

Purchase

Price: Basic system package will be sell for \$390.00

PROGRAM: Video Data Base

Overview:

A video data base is based on a Commodore Computer System combined with an optical laser video disk player. The combined system provides for complete control enabling the user to search, retrieve and display the combination of computer generated graphics and video simultaneously on a standard color monitor. The interaction between the two devices works in two distinct modes.

First, the computer can random access the video disk player. This means the disk player can be instructed to begin play at a specific frame, play forward or backwards or lock into a particular frame.

Second, the use of a special interface referred to as a GEN LOCK, allows computer generated graphics to overlay with standard video simultaneously. For example, the computer can display updated pricing over catalog picture.

The use of both the video overlay and random access facilities provides the means to create an actual video database driven by many conventional software programs. Due to the systems flexibility, applications are almost unlimited replacing conventional information systems like microfiche in real estate, multi-list programs, and print catalogs.

Markets: Government - i.e., Patent Search
 Real Estate - Multi-Listings
 Retail Automotive After Market - Parts Management
 Libraries - General Information Archives
 Education - Increased Interaction and Content

Market

Potential: Estimated 10 - 50K Units Per Year - C128
 Estimated 3 - 5K Units Per Year - PC10 and PC20

Equipment: Basic System Package

- o PC 10, 20 and/or IBM
- o C128 and Related Products
- o Video Disk Player
- o GEN LOCK

Aftermarket Sales Potential

- o Complete Line of Peripherals
- o Application Software for Extended Capabilities
- o Amiga - Offering Enhanced Capabilites

Purchase

Price:

Target price is estimated at;

- * \$4,000 Retail - Commadore PC (Available Now)
- \$2,000 Retail - C128 (Available November 85')

* Amiga will eventually replace the PC System offering much more capability at similiar retail.

PROGRAM: Packet Radio Modem**Overview:**

The packet Radio Modem enables the Ham or Professional Radio Operator to interface communication equipment with standard Commodore Computers.

This is the alternative to stanadard telephone line communication. The system permits communications over airways eliminating line charges.

Part of this system's technology could be used in the Police System and otheer related service markets.

Markets: Ham Radio Operators, Professional Service Organizations

Market

Potential: Totoal installed base of Ham Radios exceeds 400,000 units. CBM predicts initial volume of two to three thousand systems within the next year.

Equipment: Basic System Package

- o Plus/4, C64 or C128
- o Video Monitor
- o Packet Interface
- o Software

Aftermarket Sales Potential

- o Disk Drives
- o Printers

**Purchase
Price:**

Unit is targeted to retail for \$200.00 plus the cost of the standard equipment. This is comparable to the Heath Kit at \$295.00 in kit form, \$695.00 from AEA, and \$500.00 from Motorola.

FINANCIAL REPORTING PACKAGE:

Below is a format we intend to supply the Banking Group approximately 45 days after the end of each month providing various points of reference on our current financial situation. These include:

- 1) Flash Report of sales in the US, UK, Germany and a total of the rest of the world.
- 2) Approximate inventory in US, UK and Germany by the following category in units and dollar volume.

C64 CPU, C64 PCB Boards, 1541 Drives, Printers, Monitors, 128 CPU, 128 PCB, 1571 Drives, Amiga CPU.
- 3) Debt Report by country.
- 4) Copies of major articles appearing in the trade and financial press.

The monthly package will also include a narrative discussing any significant changes in our results from the current forecast as well as any change in the outlook at the time.

ARTHUR ANDERSEN OVERSIGHT ROLE

SECTION VII

The Bank Group has requested and Commodore has complied with the request of retaining Arthur Andersen to do an overview of this report as well as a review of the assets with the view of the adequacy of collateral for the Bank Group. A copy of the instructions to Arthur Andersen follows this page. It is Commodore's intention to work with the banks to protect their position. Further it is our intention to provide any and all information to the Bank Group in a timely fashion. We hope our cooperation is met with the same cooperation of our lenders.



August 9, 1985

Arthur Andersen & Co.
Five Penn Center Plaza
Suite 2800
Philadelphia, PA 19103

RE: COMMODORE INTERNATIONAL LIMITED
AND SUBSIDIARY COMPANIES

Dear Sirs:

This letter is to set out instructions to you to inquire into and report to the Board of Commodore International Limited and Manufacturers Hanover Trust Company and Continental Bank as Agents for the U.S. Bank Group and Barclays Bank PLC, Agent for the U.K. Bank Group ("the Group") and Bayerische Vereinsbank as a representative of the German Banks, on the current position, prospects and working capital requirements of the Group and its major subsidiaries in the U.S., UK and Germany. Your report should include:

- 1) A review of the income statement and balance sheet as of 30th June 1985.
- 2) Examination of current assets and liabilities as of June 30, 1985 - in particular:
 - (i) The disposition by Company and Country.
 - (ii) An analysis by age of Receivables and Payables.
 - (iii) Comments on the adequacy of the provisions for inventory write-offs.
 - (iv) Availability to bank for coverage.
- 3) Comments on the basis of accounting for:
 - (i) Work in progress
 - (ii) Receivables
 - (iii) Inventories
 - (iv) Intercompany balances
 - (v) The position regarding trade suppliers and contractual terms of supply and preferential creditors (major exposures and reliances should be highlighted).
- 4) A schedule of major fixed assets and properties of major group companies stating:
 - (i) Name of the company owning the asset.
 - (ii) The location of major assets.
 - (iii) The book value and basis of valuation

- 5) A review of the Strategic Plan, projected income statement, cash flow forecasts and projected balance sheets for the current year ending 30 June 1986, commenting specifically on the underlying assumptions.

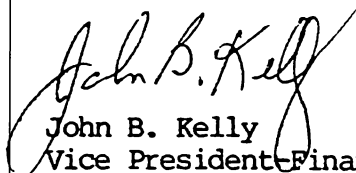
We would like you to set out the main factors to which achievement of the cash flow forecasts are sensitive and provide an indication of the overall sensitivity of forecasts to changes in the underlying assumptions.

- 6) Any observations you may have in the course of your work on management controls and information systems, planning and forecasting procedures, and the suitability of the present structure to the needs of the Group and its Bankers.
- 7) Details of the facilities and outstandings of all lenders, whether on or off balance sheet and including contingent liabilities such as operating leases and letters of credit. Details of all other external debt and the nature of intercompany funding should also be given.
- 8) Implications of major movements in exchange rates.
- 9) Any other matters which appear to you to be relevant to the group's viability and the position of the Group's bankers.

Your work will be based on internal management information and on the results of your audit of the accounts. We authorize you to visit our principal offices in the USA, United Kingdom, Germany, Hong Kong and such other locations as appropriate and confirm that you will have unrestricted access to the books and records of the group and the full cooperation of senior management, who will keep you informed of any matter arising which is relevant to your work.

We would ask you to make a full written presentation concurrent with the delivery of the consolidated financial statements of the Group as of June 30, 1985, together with your auditors' report.

Very truly yours,


John B. Kelly
Vice President Finance

:js

CORPORATE ORGANIZATION

With the addition of many new Account Officers to the Commodore account, it appears to be useful to walk through the corporate organization chart. Exhibit 9A shows Commodore's corporate structure as of June 30, 1985 (there have been no changes since that date). At the top we have a Bahamian company, Commodore International Limited which directly owns two subsidiaries, Commodore Amiga Inc. and Commodore Electronics Limited.

Commodore Amiga owns the technology of the Amiga computer and is the research and development center for that technology.

Commodore Electronics Limited is the primary operating company within the Commodore group with purchasing, manufacturing and intercompany distribution responsibilities for the products Commodore markets on a worldwide basis. CEL funds the group's research and development effort and bears the major business risks associated with all aspects of its worldwide business of developing, producing and distributing Commodore computers and related products.

CEL has branches in four countries and owns, on a direct basis, Commodore Business Machines (UK) Limited (marketing and assembly), Commodore Japan Limited (purchasing, production and R&D), Commodore Electronics Taiwan Limited (production), and sales companies in Denmark, Switzerland, Norway, Sweden and Canada. CEL also owns a Netherlands Antilles holding company, CEL Electronics N.V., which in turn owns Commodore Holding B.V., a Dutch corporation. This Dutch company owns the sales companies in the Netherlands, Belgium, Italy, France, Sweden, Australia, Germany and the United States. In addition to being sales companies these latter two also are major assemblers of computers and have significant research and development activities. Commodore Holding B.V. also acts as the intercompany bank, funding all past due CEL invoices with long-term interest bearing advances.

The attached flow chart (Exhibit 9B) shows the movement of cash within the Commodore group. CEL produces proprietary printed circuit boards for computers and disk drives and sources finished products, components and parts and then resells all the above to the various assembly/marketing subsidiaries. CEL also funds worldwide research and development and buys semiconductor wafers from the U.S. Company which semiconductor devices which are incorporated in the printed circuit boards it produces. The finished PCBs are sold (1) to the U.S. Company where they are assembled into finished goods for sale in North America and (2) the U.K. and German companies for assembly into finished goods for sale in Europe and the rest of the world.

SUMMARY AND CONCLUSIONS

The next four months which encompass Commodore's major selling season, are important for several reasons. We must liquidate a significant amount of the older inventory to generate cash, continue to expand distribution of our business products in Europe (mainly the PC 10 and 20), introduce the C-128 on a worldwide basis as a successor to the C-64 and establish new marketing channels in North America for our new flagship, the Amiga. While any one of these tasks is formidable, we are confident we will succeed on all counts. What is required is specific execution by the company and support by major creditors, both trade and financial. The limited availability this selling season of the C-128 and the Amiga, due to financial constraints on the building plan, should give the financial community some comfort that the risk we are taking is being short of product, not another inventory exposure. After we reduce our leverage, we are confident that we can expand the plans on the C-128 and the Amiga to meet the demand.

Our optimism on our ability to move the C-64 family has recently been bolstered by the fact that mass merchandisers have seen a drastic pick-up in floor traffic as the result of the initial advertising campaign for the C-128. Initial purchasers who decide not to buy a C-128 have only one alternative on the shelves, the C-64. In addition, mass merchandisers are devoting their advertising to the C-128 as it is the only new product introduced this Christmas.

To meet the objectives in both short and long term time frames, we must have the cooperation and support of our banking group. When we have proven our ability to move ahead positively, we will explore capital markets again to balance our capital position better. A viable personal computer industry exists. Our technology will ensure that we remain one of the dominant players in that industry.

Commodore wishes to thank its lenders for their past support. Together, we can use the upcoming selling season for our mutual benefit.

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